# FINANCIAL TIMES


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*Your call, Mr Bond*

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*Lord Moyne speaks out*

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**Today's Surveys**

*Czech Republic*

*Austria*

Separate sections


World Business Newspaper http://www.FT.com MONDAY DECEMBER 1 1997


## WORLD NEWS

### Israelis set to make final peace offer to Palestinians

The Israeli cabinet has authorised three senior ministers to draw up proposals for a final settlement with the Palestinians combined with an Israeli troop withdrawal from the occupied West Bank. Page 6

**Instability worries as Czech government quits**
The Czech Republic faces a period of political instability after prime minister Vaclav Klaus announced the resignation of his government on Saturday night. The Financial Times survey on the Czech republic, written and printed just before the decision was taken, appears as a separate section today. Full story, Page 18; New generation, Page 2; Editorial Comment, Page 17

**Nato ponders Bosnia role**
Military planning for an international presence in Bosnia after June 1998 is to be set in motion this week, but political decisions on the future of the 34,000-strong Stabilisation Force (Sfor) will not be taken until next spring. Page 2; Observer, Page 17

**Ministers tackle deadlock**
EU finance ministers will today try to break the deadlock over Franco-German plans to create a new "euro-club" for countries joining Emu. Page 2

**Egypt cuts domestic air fares**
The Egyptian government has ordered the national airline, EgyptAir, to cut domestic fares by 50 per cent for three months in response to the crisis facing the tourist industry since the Luxor massacre. Page 6

**Tariff cuts urged on China**
The US and EU will urge China to build on its latest efforts to speed its admission to the World Trade Organisation by committing itself firmly to faster and deeper tariff cuts. Page 5

**Beijing rules out devaluation**
China will not devalue its currency to boost exports despite the devaluations in rival Asian manufacturing economies which threaten to undermine its competitiveness. Page 5

**Ban on Polish milk**
The EU today implements a ban on Polish dairy imports in a dispute which threatens to cast a cloud over negotiations on Poland joining. Page 5

**Reforms after Emu**
EU countries will require further budgetary consolidation and structural reforms after the 1999 start of economic and monetary union, according to the European Commission. Page 2

**Employers dash peace hopes**
Prospects of a truce between France's Socialist-led government and the employers' federation, CNPF, over plans to impose a 35-hour week were dashed by tough statements from industrialist Ernest-Antoine Seillière. Page 3

**Chip duties lifted**
The EU has lifted anti-dumping duties on South Korean D-Rams, the most common type of computer chip. Page 5

**New US offer on traps**
The US has offered to phase out leg-hold animal traps within six years, which may be enough to avert a ban on fur exports to the EU due from today. Page 5

**Pakistan crisis worsens**
Pakistan's political crisis deepened after prime minister Nawaz Sharif accused president Farooq Leghari of undermining his government. Page 4

**Iraq oil deal**
UN Secretary General Kofi Annan is set to suggest allowing Iraq to sell more oil in exchange for humanitarian relief. Page 6

## BUSINESS NEWS

### Competition to buy Rolls-Royce grows as new products near

Competition to buy Rolls-Royce Motor Cars, part of the UK's Vickers group, has intensified after signs that RR's next generation of vehicles could be ready in February. German carmakers BMW, Mercedes-Benz and VW are all in the frame. Page 19

**Price Waterhouse** and Coopers & Lybrand are to announce that partners have "overwhelmingly" backed global merger proposals and predict that if regulators agree to the plan they will create 50,000 new jobs in Europe by 2003. Page 18

**Daewoo,** South Korean industrial conglomerate, has halted plans for a FFr1.7bn ($292m) investment in a cathode-ray glass tube plant in Lorraine, eastern France. Page 4

**Banca di Roma,** Italy's second largest banking group, has successfully completed a L3,000bn ($1.74bn) recapitalisation after a share offer to Italian domestic investors was three times subscribed. Page 19

**Volvo,** Swedish vehicles group, is scaling back its growth plans for Asia and refocusing short-term investment priorities on eastern Europe. Page 21

**Spain's** stock-market regulator Comisión Nacional del Mercado de Valores has fined Crédit Suisse Financial Products of the UK Pta285m ($1.9m) over share manipulation charges. Page 21

**Provident Financial,** UK's leading collected credit company, is close to starting lending in the Czech Republic and may turn its sights on Hungary. Page 20

**AGF,** French insurance group, considered buying state-owned insurer GAN in a bid to block last month's hostile takeover bid launched by the Italian group Generali. Page 22

**Electrolux,** Swedish household appliance manufacturer, is unveiling the prototype of a radar-guided robot vacuum cleaner in London. Page 8

**Fidelity,** US fund management group, is becoming the first foreign group to sell mutual fund products through Japanese bank branches. Invesco, another US group, is also poised to start sales in Japan, amid expectations that savers there are seeking alternatives. Page 19

**Anglo American,** South Africa's biggest company, is giving up its direct interest in sister company De Beers to reduce the chance of Anglo's global ambitions being challenged by US anti-trust authorities. Page 22

**Bezeq,** Israel's state-controlled telecommunications company, has reported heavy losses for the first nine months of the year after a Shk1bn ($282m) write-off for restructuring. Page 21

**British Sky Broadcasting,** UK satellite TV company, is to start producing made-for-television films with budgets of up to £5m ($8.4m) in an effort to expand its British programming under new chief Mark Booth. Page 20

**Kroll O'Gara,** the investigations and security company about to launch, faces an immediate threat in two key European markets after the defection of senior executives from its London and Moscow offices. Page 19

**Piltel,** Philippines' cellular phone group, faces financial pressure after telephone company Philcom decided not to pay for its acquisition of a 20 per cent stake in the group worth 5.17bn pesos ($148.4m). Page 21

## Enlargement could force Commission to diminish status for assistance

# Eleven regions may face EU funding cut

By Brian Groom in Brussels

Eleven European regions would lose objective 1 status – the highest category for assistance from European Union structural funds – after 1999, under Commission proposals to tighten funding before the accession of new member states from eastern Europe.

The regions include: Lisbon in Portugal; Valencia in Spain; Corsica and Valenciennois in France; Sardinia and Puglia in Italy; Hainaut in Belgium; Flevoland in the Netherlands; and the Republic of Ireland.

Germany's eastern regions will keep their objective 1 status, as will the whole of Greece. To qualify, regions must have GDP per head at 75 per cent of the EU average or less.

In the UK, South Yorkshire – badly damaged by the decline of coal mining – is likely to qualify for the first time. Merseyside, in the north-west of England, is expected to retain its objective 1 status, but Northern Ireland and the Scottish Highlands and Islands will lose theirs.

The future of EU regional aid is causing intense concern across Europe. The Commission announced outline plans as part of its Agenda 2000 budget proposals last July, but so far regions have been in the dark about the precise impact.

The stakes are high. The structural funds, intended to reduce economic disparities, take one-third of the EU's budget. Objective 1 accounts for two-thirds of structural spending and can be worth hundreds of millions of Ecus for regions that qualify.

The likely outcomes were revealed by Eneko Landaburu, the EU's director-general of regional policy and cohesion. He stressed they were based on provisional data, and the Agenda 2000 proposals were still under negotiation.

The statistics on which the next round, covering 2000-2006, are based will be finalised early next year, with the Council of Ministers likely to make decisions later in the year.

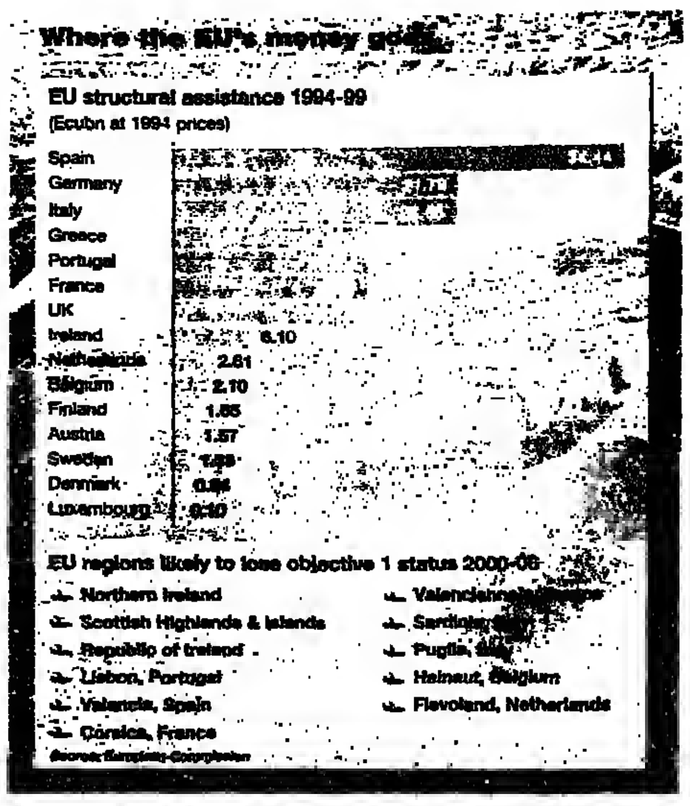
Mr Landaburu said there would be "long and generous" transitional arrangements lasting several years for regions that lose objective 1 status, under which they would receive decreasing amounts of assistance.

Under Agenda 2000, the Commission proposes to maintain structural spending at 0.46 per cent of the EU's GDP. This would mean expenditure of 275bn Ecu ($245bn) between 2000 and 2006, of which 45bn Ecu are earmarked for new member states.

To cope with enlargement, the Commission plans to reduce the proportion of the EU's population eligible for structural funds from 51 per cent to between 35 and 40 per cent. The threshold for objective 1 will be strictly applied.

In discussions with the Commission, Germany and the Netherlands have objected that planned expenditure on the structural funds is too high. The southern countries, particularly Spain, have argued that not enough would be spent on their regions. Britain has expressed concern about the way the new objective 2 – covering areas of industrial decline and urban and rural deprivation – would be applied.

Mr Landaburu hinted at a compromise involving targetting by national governments. But he warned: "We need to be vigilant. In some countries there may be pressure to include regions for political reasons. There needs to be priority for the worst areas, those much affected by unemployment and deprivation."




# S Korea agrees terms for IMF's rescue loan

By John Burton in Seoul

South Korea said early this morning it had reached agreement with the International Monetary Fund on terms for a loan to rescue its economy.

Lim Chang-yuel, the Korean finance minister, announced the unexpectedly swift conclusion of the deal after late-night talks with the IMF. He gave no details.

Mr Lim said the deal must still be approved by Michel Camdessus, the IMF managing director, with whom he would talk by telephone today.

"I expect the IMF board meeting to be held midweek to approve the agreement and money can be brought in as soon as they approve it," Mr Lim said. Asked how much Korea would receive under the IMF package, Mr Lim said: "That's not for me to say."

The deal comes less than a week after Hubert Neiss, the head of the IMF's Asia-Pacific department, arrived in Seoul to lead a 17-member delegation in negotiations with Korea.

Government officials suggested yesterday the IMF would soon extend the first tranche of a $15bn-$20bn loan, but the size of the bailout remained unclear.

The US, Japan, the World Bank and the Asian Development Bank are expected to contribute to the IMF-led rescue, which could reach $60bn and would exceed that offered to Mexico in 1995. But the US and Japan have said they want to review the IMF loan terms before committing themselves to the bailout.

Before Mr Lim's statement, state-run broadcasting said Korea was resisting an IMF demand that it close three troubled commercial banks and 12 indebted investment banks immediately. Korea prefers trying to restructure them first and sees liquidation as a last resort. The threatened commercial and investment banks are technically insolvent because of loan defaults by bankrupt conglomerates and financial investments in south-east Asia that have gone sour.

The IMF has said foreign banks should be allowed to participate in mergers and acquisitions of Korean financial institutions, while the nation's capital markets should be opened fully to foreign investors.

Korea was also opposing IMF demands that economic growth in 1998 should be slowed to between 2.7 and 2.8 per cent compared with 6 per cent this year, while Seoul wanted a percentage point higher growth rate.

Slower growth combined with an IMF condition that interest rates rise to 18-20 per cent – nearly five times the inflation rate – would lead to extensive corporate restructuring as Korea's highly-leveraged industrial conglomerates would be deprived of the generous bank financing to which they are accustomed.

Analysts yesterday said the unemployment rate could more than double to 6 per cent next year as unprofitable businesses are shut, although Korea's rigid labour laws might make mass redundancies difficult.

It was uncertain whether foreign banks would be satisfied by the IMF loan terms and resume lending to Korea. The calling of short-term loans by foreign banks triggered Korea's debt crisis and forced Seoul to go to the IMF for aid.


Daewoo to halt plans, Page 4


# Opec ministers agree to 10% increase in oil production

## Biggest boost in output since 1993 may spark price fall

By Robert Corzine in Jakarta

Oil ministers from the Organisation of Petroleum Exporting Countries are counting on buoyant demand next year to absorb a 10 per cent production hike to 27.5m barrels a day they agreed at the weekend.

But several oil traders and analysts attending the Opec meeting in the Indonesian capital said the organisation's biggest production increase since 1993 was potentially bearish for prices.

In a separate development yesterday, Iran, one of the Opec states struggling to maintain oil output, announced a further opening up of its politically sensitive petroleum sector to outside investment. Foreign oil companies will soon be able to explore for oil in the country, said Bizhan Zangeneh, Iran's oil minister. Such a move could lead to a big expansion of Iran's production in the medium to long term.

The high level of the new ceiling caught a number of industry observers by surprise, although it is still below what the exporters' group has in fact been producing. Analysts said the net effect could be to add about 500,000 b/d to Opec's current production of as much as 28m b/d. Oil traders fear that may be too much for the market next year.

But Saudi Arabia, the world's biggest oil exporter and Opec's dominant member, believes demand is likely to remain buoyant. Some delegates also noted that several Opec members may be unable to meet their enlarged quotas. There were also suggestions yesterday that some Opec countries might take steps to ensure that the new ceiling does not destabilise oil markets.

"Total Opec production for the next three months will be the same as the last three months, and lower if Iraq's output is reduced," said one delegate.

Saudi Arabia orchestrated the new increase, in part because the big disparity between the old ceiling and actual output was undermining Opec's credibility. Riyadh was also frustrated at not being able to benefit from recent growth in oil demand.

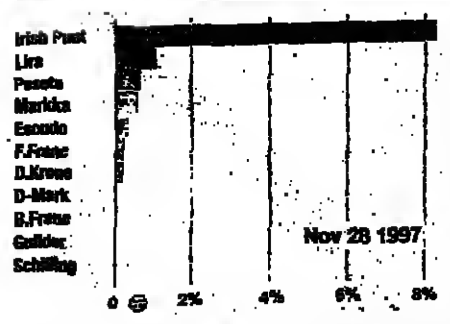
Unlike several Opec states which have cheated on their quotas for years, Saudi Arabia and the other two big Gulf Arab producers, Kuwait and the United


Continued on Page 18

Saudis point to demand, Page 6




## EMS: Grid




The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

The turmoil in world currency markets had no effect on Europe's exchange-rate mechanism, supported by the increasingly certain prospects of European economic and monetary union. Currencies, Page 27




London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York · Los Angeles · Tokyo · Hong Kong

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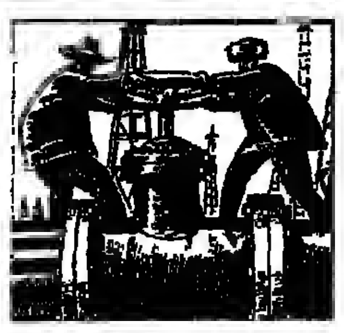
## Inside





An oil deal struck between an American and a Russian Page 12

**NEWS:** EUROPE

# Klaus resignation opens way for new generation

A new generation of Czech politicians may finally come to the fore after the scandal-induced resignation on Saturday of Vaclav Klaus, one of the longest-serving post-Communist leaders in central and eastern Europe.

The most prominent of the younger faces is Ivan Pilip, 34, who as finance minister pushed through reforms intended to overcome the effects of the last apring's currency crisis in the Czech Republic.

Mr Pilip is the front-rank contender to ancceed Mr Klaus, 56, as leader of the Civic Democratic party (ODS), the biggest partner in the three-party coalition government.

However, his role in bringing down Mr Klaus has angered some ODS members. He may prefer to bide his time until conditions are more propitious, confident that the top prize will eventually come his way.

Mr Klaus stepped down as prime minister after a scandal erupted over financial donations to the ODS. In typically forthright fashion, he declared: "I don't think that the country will benefit from the resignation of the government."

Other Czech leaders, including Vaclav Havel, the president, begged to differ. Josef Lux, chairman of the Christian Democrats, the second coalition partner, said the ODS was split and its leadership had no firm mandate.

It is only Mr Klaus's doggedness that kept him in power after his coalition failed to win a majority in last year's parliamentary elections.

When forming a government, he caused a surprise by giving his coalition partners more seats in the cabinet, and by ceding the chairmanship of key committees to the opposition Social Democrats.

He kept the government afloat by balancing the Christian Democrats and the right-wing Civic Democratic Alliance (ODA) in the cabinet, and by luring two Social Democrats to defect in parliament.

However, the currency crisis and subsequent economic slowdown weakened him by exposing the fragility of Czech industrial restructuring, and various frauds and controversial privatisation decisions tarnished the government's image.

It suffered later from internal bickering and apeculation that the Christian Democrats were preparing to defect and ally with the Social Democrats.

Ironically, Mr Klaus resigned at a time when the government was recovering some momentum. Mr Pilip's reforms, grudgingly accepted by Mr Klaus, were broadly welcomed in financial circles.

But long-time rivals such as Josef Zieleniec, who resigned as foreign minister in October, and ambitious newcomers such as Mr Pilip felt that the coalition could only be maintained under a new prime minister.

If Mr Pilip did not succeed Mr Kleus, the leadership could pass to a representative of the old guard, such as Mr Zieleniec or Jan Ruml, former interior minister.

But Mr Klaus should not be entirely written off. It is conceivable that the party will rally behind its founder and re-elect him at a congress due no later than December 13.

The problem for the ODS is that the scandal looks to be so wide-ranging that the whole coalition could collapse. Mr Lux has been pushing for the coalition to adopt "social market" policies. He called last October for a new cabinet programme, followed by a vote of confidence.

Mr Lux said yesterday he would prefer a non-party prime minister with political backing. There bas been apeculation that Mr Havel has been preparing a temporary government of experts to govern the country until early elections, perhaps six months from now.

However, no aolidly founded government is likely until the ODS resolves its leadership question.

In the event of early elections, opinion polls indicate that the Christian Democrats might be able to form e new government with the Social Deoocrets, if the ODA or the far-right Republicans fail to pass the 5 per cent vote threshold needed to enter parliament.

The other coalition parties need therefore to keep the Christian Democrats oo board, perhaps by offering Mr Lux the prime ministership. However, he said yesterday he did not want the job – doubtless aware that it could burden him with the government's unpopularity.

By contrast, he can expect an electoral payback if he opens a new era with the Social Democrats.

See Survcy, separate section, and Editorial Comment

**Robert Anderson**

Klaus: forced out

# Ministers to tackle 'euro club' stand-off

By Lionel Barber in Brussels

European Union finence ministers will try today to break the deadlock over Franco-German plans to create a new "euro club" for countries joining economic and monetary union.

The plan has led to a stand-off between the 11 likely Emu members and the four countries which intend to stay out of the first wave in 1999: Britain, Denmark, Greece and Sweden.

The non-Emu countries fear that the euro club will be exclusive, undermining the council of finance ministers, which is the key decision-making forum on EU macroeconomic policy.

Britain is seeking a separate deal with France and Germany, which wonld allow it to join the club on the basis of the size of the UK economy and its willingness in principle to join the single currency. France has signalled interest, but only if the Labour government offers a firmer commitment to join Emu going beyond the statement which Gordon Brown, chancellor, delivered to the House of Commons last month.

Efforts to resolve the impasse are complicated by differences between France and Germany over the role of the new club. France's leftwing government wants to maximise the importance of the euro club, portraying it as a heavyweight institution to discuss tax, employment and exchange rate policy. Paris sees the group as a political counterweight to the future European Central Bank in Frankfurt.

Germany initially proposed a "stability council" as a tool for enforcing fiscal discipline among Emu countries, but ministers have since played down the importance of the new gronping. Bonn is worried that French demands for a solemn declaration on the euro club at an EU summit in Luxembourg later this month could be viewed at home as a threat to the ECB's independence.

"All this is nothing to do with technical or monetary policy," said an EU diplomat. "This is about political packaging, for the French and German pnblic."

Today's meeting will explore whether the new club could allow limited access to non-Emu countries or observer status, depending on which issues were on the agenda. Some diplomats are dubious about this approach, arguing that the club will work only if it is kept informal and flexible.

Future euro-countries have warned the four outsiders that, in the end, they will set up the club whatever the objections, but that it is preferable to reach an agreement among all 15 member-states on the ground rules. France and Germany have support for the view that those taking the economic and political risk of Emu should enjoy the benefits and status.

Hence, Finland's robnst attitude to its non-committal neighbour Sweden. For Britain, the euro club is highly sensitive. Labour claims that it has transformed relations with Europe, allowing Britain to enjoy equal standing witb France and Germany. But this would be challenged if the UK is excluded.

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# Reforms needed 'after Emu'

By Wolfgang Münchau, Economics Correspondent

European Union countries will require further budgetary consolidetion and structural reforms after the 1999 start of economic and monetary union, according to the European Commission.

In a report on the economic consequences of Emu*, the Commission says the European Central Bank (ECB) could be confronted by substantial differences in regional inflation rates, even though the average inflation rate under Emu may fluctuate between zero and 2 per cent. "One can reasonably expect that regional inflation differences will be more pronounced in Emu, as the Emu-area will comprise several economies in which GDP per head is considerably below the EU average."

Inflation rates would be higher in catching-up economies because such economies experience stronger productivity growth. This could trigger wage and price increases.

The Commission warns that monetary policy feces aeveral uncertainties. The ECB will operate monetary policy without being able to rely on long-time series of historic data. It must also take account of differences in the financial structure of member-states. "If the impact and speed of transmission of monetary policy vary between the member-states, it may have an impact on the effectiveness of the ECB's policy and even lead to adverse reactions if the effect on demand is weaker in those regions where inflationary pressures are the strongest."

The report notes that fiscal policy went astray in many EU countries in the last two decades. Budgetary behaviour "indicates that fiscal policies have tended to respond to various political factors, resulting in a deficit bias".

Budgets would require enough room to allow fiscal stabilisers to work during economic crises or in response to economic shocks. "Achieving a medium-term budgetary position of close to balance or in surplus creates more rooo for automatic stabilisers to work," it says.

But the report is more circumspect on the virtues of an activist fiscal policy to smooth out cyclical fluctuations.

The Commission argues that Emu will bring "opportunities for better allocatinn of resources, higher growth and higher employment" but it warns that member states will need to step up reforms in product and labour markets, and continue to consolidate their budgets.

*European Commission, Directorate General 2, Economic Papers, "Economic Policy in Emu", Part A and Part B, No. 125, 126.

# Nato ponders Bosnia role

By Alexander Nicoll, Defence Correspondent

Military plenning for an international presence in Bosnia after June 1998 is to be set in motion this week, but political decisions on the future of the 34,000-strong Stabilisation Force (Sfor) will not be taken until next spring.

At a meeting in Brussels tomorrow, Nato defence ministers will hold sessions with Igor Sergeyev, their Russian counterpart, and witb ministers froo the Czech Repnblic, Hungary and Poland, which are due to join Nato in 1999.

Military chiefs are understood to believe that a substantial military presence is essential if peace is to be maintained in Bosnia. Although progress is being made in implementing the Dayton peace accord, it would be reversed if troops were to withdraw.

European governments are convinced of the need for a follow-on force, but the Clinton administration has preferred to concentrate on achieving as much as possible with Sfor and to put off discussion with Congress on a future presence until next year.

General Wesley Clark, the American commander of Nato's European forces, has told governments that a decision on what will happen after Sfor's 18-month mandate expires in June needs to be made by March 1. Defence ministers are expected to call for a study of military options and to agree that there will be no significant reduction before March – contrary to the original plan to scale down its size in stages.

However, the meeting will be overshadowed by two bilateral disputes threatening to delay implementation of Nato's new command structure, which would sharply cut the number of military beadquarters operations. Britain and Spain are at loggerheads over Gibraltar, while Greece and Turkey have failed to resolve a dispute about control of airspace.

London is threatening to hold up the new Nato structure, which would bring Spain into full participation for the first time, with a new headquarters in Madrid and the closure of a command in Gibraltar. It wants Spain to drop long-standing restrictions on aircraft and ship movements to and from Gibraltar.

Spain has refused to lift the curbs unless it makes progress on the issue of sovereignty over the territory. A British official said: "We think it is extraordinary that an ally which wants to be part of the command structure should prevent forces moving from one part of Nato to another. The restrictions... are not compatible with being in an alliance."

INTERNATIONAL NEWS DIGEST

# French bosses dash peace hope

Prospects of a truce between France's Socialist-led government and the employers' federation, CNPF, over plans to impose a 35-hour week were dashed over the weekend by tough statements from Ernest-Antoine Seillière, the industrialist expected to be the Patronat's new head.

In an interview with the magazine Le Point, Mr Seillière attacked the government for the "casual and utterly brutal manner" in which the government had thrust the 35-hour week on employers.

He said the CNPF would fight hard to prevent the introduction of any deal that involved further financial burdens on French companies, whose social costs were already the highest of any developed economy.

Mr Seillière also indicated employers should redefine their current corporatist role and no longer be party to negotiations on social legislation. Jean Gandois, outgoing head of the Patronat, resigned immediately after the government announced in October that it would introduce a 35-hour week by 2000. *Robert Graham, Paris*

■ TRILATERAL MEETINGS

## Urals venue agreed

Russia, Germany and France plan to hold the first in a planned series of meetings next year in Yekaterinburg, capital of Russia's industrial heartland in the Urals.

Kremlin officials said the venue was set during informal talks yesterday between Boris Yeltsin, the Russian president, and Helmut Kohl, the German chancellor, in the Russian leader's hunting lodge outside Moscow. Yekaterinburg is a particularly congenial summit site for Mr Yeltsin, who was born in a nearby village.

Russia, Germany and France took the decision to begin holding trilateral meetings earlier this year, a move which the Kremlin has welcomed as a counterbalance to the international dominance of the US.

Mr Kohl and Mr Yeltsin also agreed that officials from Russia and Germany would meet later this month to consider using the Russian-Ukrainian AN-70 transport aircraft as the basis for a European military transport aircraft. *Chrystia Freeland, Moscow*

■ POLISH PENSIONS

## Reforms to go ahead

Poland's new centre-right government is to press ahead with plans inherited from the previous administration to introduce pension reforms, a government official said.

Under the World Bank-backed project, Poland plans to introduce privately managed pension funds which will be compulsory for people under 30. These will supplement a basic pension, funded on traditional pay-as-you-go, as well as voluntary private pension plans.

Ewa Lewicka, the official in charge of the reforms, said the government wanted to introduce the system on January 1, 1999. This would require the passage of new legislation tightening the system of pensions paid to the elderly and those receiving disability support.

Under the reforms, Poland intends to cut the social security charge of 45 per cent on gross wages to 35 per cent over 15 years. The charge is currently paid by employers, but the reforms will split it between employers and employees, easing employers' wage bills in the medium term. *Christopher Bobinski, Warsaw*

■ EXPORT VIOLATIONS

## Israel and EU in juice pact

Israel and the European Union reached an agreement in Brussels at the weekend aimed at ending a dispute involving Israeli violations of rules-of-origin regulations in exporting orange juice to Europe.

The dispute came to a head last month when the EU charged Israel had exceeded its quotas, exporting orange juice labelled "Made in Israel" but which contained citrus from other countries, mainly Brazil. EU countries can import Israeli orange juice duty free, according to a agreement signed in 1995.

At the weekend, Israel admitted some Israeli companies may have not adhered to regulations. Under the agreement, Israel will re-examine certificates of origin on juice exports between June 1995 and December 1995, and will present its findings to the EU by January 10. If the EU is satisfied, it will rescind the warning to European importers. *Avi Machlis, Jerusalem*

■ VENEZUELAN ECONOMY

## IMF agreement unlikely

Venezuela is unlikely to sign a stand-by agreement with the International Monetary Fund after the two sides failed to agree on measures to finance government liabilities. The government rejected the IMF's proposal to increase petrol prices as a key measure to finance labour obligations, said Luis Rául Matos Azócar, finance minister.

The government has total labour and social security obligations of $14bn, of which it must refinance $8bn over five years. Mr Matos said the budget deficit amounted to 2 per cent of GDP but this "is not worrisome". Part of the debt stems from a reform of a severance pay system earlier this year. Instead of a stand-by agreement, the IMF will now study the possibility of a less exacting "shadow programme", an economic plan monitored by the IMF but not involving any funds. *Raymond Colitt, Caracas*

# Lawyers line up at court of 'El Gominas'

Mario Conde, former chairman of Banesto, faces his second trial today, writes **David White**

For Mario Conde – once the most dashing figure in Spanish finance, now struggling desperately to stay out of prison – December is a fateful month.

It was this time 10 years ago that he leapt nimbly into the chairmanship of Banesto, then Spain's second biggest bank. Six Decembers later the Bank of Spain intervened, sacking him and his fellow directors. A year later, just before Christmas, Mr Conde had his first taste of a prisoo cell, staying in detention for five weeks before securing bail. Today, in the national court in Madrid, he is due to appear for his second and most important trial.

He already faces a six-year term for misappropriation and forgery *after* a separate trial in March over Pta600m ($4m) which was siphoned off to a company on the Caribbean island of St Vincent. Pending appeal, Mr Conde was released on bail of Pta2bn.

This time he faces the same presiding judge, but will be flanked by 10 former colleagues at Banesto – including his former vice-chairman, Arturo Romaní, and four other board members.

Legal investigations were speeded up at the last minute to include two men accused of organising the receipt of illegal payments in Switzerland: his lawyer, Mariano Gómez de Liaño, and Francisco Sitges, ex-chairman of Asturiano de Zinc, operator of the world's largest zinc plant, ooce cootrolled by Banesto.

*Mr Conde, 49, swept to stardom* when he bought his way on to the Banesto board in the midst of a hostile bid for the bank. A brilliant lawyer, he had made his fortune by selling a pharmaceuticals company. He was an outsider at the high table of Spanish banking, taking charge of one of the country's fustiest institutions. Nicknamed El Gominas (hair-oil) for his handsome looks and slicked-back hair, he was a role model for Spanish yuppies. He bought country estates and a 41m yacht, was photographed with the Pope aod received an honorary degree in the presence of King Juan Carlos.

His reign at Banesto brought a new image and an aggressive lending policy which hit serious trouble in the 1993 recession. The bank's problems were aggravated by loans to companies it held shares in. According to an audit in early 1994, the overvaluing of Banesto assets had left a Pta605bn hole in its balance sheet. The rescue cost the Bank of Spain and the banking system a net Pta192bn. Control of Banesto was taken over by Banco Santander.

Many had fancied Mr Conde for a career in politics. Since his fall from grace, he has played a more shadowy role. Although he has denied any intention of political blackmail, he has been associated with leaks of sensitive information

Conde: fighting prison sentence

affecting prominent figures.

The trial, for fraud, misappropriation and forgery, is about a series of alleged offences unearthed after the Bank of Spain's intervention. These mainly involve the purchase and resale of companies connected to the Banesto group. The operations are alleged to have profited Mr Conde and his associates and cost the bank at least Pta12bn.

One instance concerns an electrical fittings company, Isolux. A 40 per cent share was sold in 1990 by Banesto's industrial holding unit, Corporación Banesto, to what prosecutors say was a front company, for Pta600m.

This company later sold a quarter of its stake to the cement producer Portland Iberia, then owned by the Banesto group. The remainder was sold on to another company and then to Metallgesellschaft of Germany, before being bought back by Corporación Banesto. The profit for the intermediaries is put at Pta3.8bn.

Then there were interests in two other cement concerns which the *Banesto group* bought for Pta176m. It is alleged to have sold them at the same price to a company coonected with Mr Romaní, which transferred them to a third company, which in turn *sold them* to Banesto's Portland Iberia subsidiary for Pta1.4bn.

Similarly, a property company is alleged to have been resold to the Banesto group's insurance arm at a Pta2.38m profit.

Further allegatioos include a Pta1.34bn payment made by Air Products of the US to take up options oo shares in a Spanish industrial gases producer, Carburos Metálicos (now an Air Products subsidiary). The payment apparently never appeared in Banesto's accounts. Mr Conde is also accused of failing to repay a Pta300m cash withdrawal.

The legal investigation, involving an intricate trail of companies in Spain, Switzerland, Liechtenstein and elsewhere, has taken three years. The case dossier is reported to run to 100,000 pages. More than 200 witnesses are due to testify, and the trial is expected to last at least to next April.

The chief defendant has so far failed in his attempts to force a postponement aod to have evidence from Bank of Spain experts disallowed. But Mr Conde is a formidable opponent and is still capable of springing surprises.

### THE BANESTO SAGA

1987 – Dec 16: Mario Conde becomes Banesto chairman.
1993 – Dec 28: Bank of Spain intervenes in Banesto and ousts its board of directors.
1994 – March 26: Shareholders approve rescue plan.
April 25: Banco Santander wins control of Banesto.
Nov 15: Investigating magistrate starts proceedings.
Dec 23: Conde in custody on charges of misappropriation, fraud and falsification.
1995 – Jan 30: Conde given bail.
1997 – March 3: First trial starts over payment made by Banesto to Argentia Trust in 1990.
March 20: Conde sentenced to six years' jail, Pta600m compensation and Pta18m fine. Granted bail pending appeal.
Dec 1: Main Banesto trial starts.

# Congress meets Narayanan today

By Mark Nicholson in New Delhi

India's Congress party will today meet K.R. Narayanan, the president, to press its claim to form a new government and so avert early elections.

However India's once dominant party appeared to have failed this weekend to win sufficient support to form a parliamentary majority.

Mr Narayanan spent the weekend meeting constitutional experts and members of India's election commission, responsible for conducting polls, after Congress decided on Friday to bring down the minority United Front coalition.

Narayanan: yet to signal whether he will invite Congress to form government or will order mid-term poll

However Mr Narayanan has yet to signal whether he is prepared to invite Congress to try to form a government, or will order mid-term elections. February would be the earliest poll date which could be organised for India's 600m voters.

The president yesterday met leaders from the Hindu revivalist Bharatiya Janata party, the biggest party in the 544-seat parliament with 193 MPs and firm allies.

The BJP has so far failed to win any pledges of support from smaller parties, but after the meeting L.K. Advani, party president, said: "We have the strongest claim."

A flurry of political meetings followed Friday's decision by Congress to withdraw support from the UF. By late yesterday, Congress could claim firm backing from only one UF constituent party, the Rashtriya Janata Dal, a Bihar-based party with just 16 MPs. Congress itself commands only 140 and needs at least 272 to govern with a majority coalition.

Meanwhile, most other UF constituent parties made a public display of unity on Saturday, their leaders gathering in a phalanx, linked arms aloft, after a meeting at which they reiterated their rejection of support for either Congress or the BJP.

The lack of political momentum behind Congress led much of the Indian press to argue that elections were now inevitable, and probably desirable.

"Elections please!" ran an editorial in Business Line newspaper, which said that continued political uncertainty "will only harm the economy and bring about an adverse impact on the already depressed stock market, the weakened rupee and the trickle of foreign direct investment."

India's lingering political limbo is likely to herald a further skittish week in the markets, though it appears unlikely to derail a $400m international equity offering by MTNL, the state telephone company. Bankers said they expected the issue of Global Depository Receipts, international paper linked to underlying Indian shares, to be priced tomorrow as expected.

# Sharif claim deepens crisis in Pakistan

By Farhan Bokhari in Islamabad

Pakistan's political crisis further deepened last night after Nawaz Sharif, the prime minister, accused president Farooq Legbari and the country's Supreme Court of undermining his government.

The prime minister's remarks were among the toughest made in public in almost two months of wrangling.

Many political analysts said now there was no room left for a rapprochement between the country's top leaders.

In a speech on national television, Mr Sharif criticised Mr Leghari for not co-operating with his government in passing important laws, and accused the Supreme Court for involving him in a series of cases, that had drawn him away from vital official business. "For two months now, daily life is at a standstill and the national economy is losing Rs1bn ($26.5m) a day," he said.

The speech followed a weekend of worsening relations between the prime minister and president. On Saturday, Mr Sharif rejected Mr Leghari's call to give army protection to Supreme Court judges, after a mob of activists belonging to the ruling PML (Pakistan Moslem League) ransacked the Supreme Court building.

The attack came while a contempt of court case against Mr Sharif was being heard. He is accused of criticising Justice Sajjad Ali Shah at a news conference last month.

If found guilty, Mr Sharif could be disqualified from the parliament and lose his job as prime minister.

Another case due to be heard this week, is the challenge to the 13th constitutional amendment passed by the parliament, with Mr Sharif's backing, this summer.

## Remarks show confrontation is 'at its climax'

The amendment had stripped the president of his controversial powers, used four times in the past decade, to sack elected prime ministers and the parliament. Restoration of the powers to Mr Leghari could considerably strengthen his hand.

Political analysts, however, were divided over Mr Sharif's future following last night's remarks.

Ahmed Mukhtar, secretary general of the opposition PPP (Pakistan People's party) said the speech gave "no sense on how the prime minister plans to resolve the crisis".

Ghazi Salahuddin, a leading political commentator, said the remarks had reinforced the view that the "confrontation with the president was at its climax, but said little on where events will take tha country".

# Taiwan Nationalists suffer poll setback

By John Ridding in Hong Kong

Taiwan's ruling Nationalist party suffered a significant setback in local elections at the weekend, with a surprisingly heavy gain for the Democratic Progressive party (DPP), which leans towards independence from China.

The result underlined disaffection with the government, corruption scandals and deteriorating law and order ahead of next year's parliamentary elections. Although local issues were prominent, the DPP victory could also raise tensions between China and Taiwan. Beijing sees Taiwan as a renegade province and demands that it eventually be brought under mainland sovereignty. The DPP has toned down support for independence since its defeat in presidential elections last year but the party continues to advocate eventual independence.

After winning a higher share of overall votes than the Nationalists and securing 12 of the 23 contested municipalities, the DPP predicted it would break the Nationalists' 50-year hold on power. The Nationalists have controlled the presidency and parliament since they moved to Taiwan after losing the mainland to the Communists in 1949.

"We are confident that we will become a ruling party," said Chen Chung-hsin, deputy leader. "We are full of confidence that we will win next year's parliamentary election and I think we stand a good chance in the presidential election in 2000."

Mr Chen said the result would force China to pay attention to the DPP. "China needs to realise that the DPP is playing a more significant role in Taiwan," he said.

Most Tawanese support the *status quo* concerning relations with China and want to avoid confrontation. As a result, DPP candidstes played down the sovereignty issue during campaigning, emphasising promises of clean, efficient government. But party officials signalled yesterday that their stance remained unchanged. "We will continue pursuing the goal of turning Taiwan into an independent state", said Chiu I-jen, the DPP secretary general.

The Nationalist party, which has now lost control of large areas of local government, was stunned by the defeat. "This is a major setback for us," said Wu Poh-hsiung, party secretary geoeral. Some Taiwanese newspapers yesterday suggested President Lee Teng-hui might have to step down from chairmanship of the Nationalist party and clear the way for a younger generation.

The Nationalists lost seven of the 15 seats they held, with the DPP gaining five and independents gaining three. The two biggest municipalities – Taipei and Kaohsiung – will be contested next year. At present, the DPP holds Taipei, while the Nationalists hold Kaohsiung.

# Daewoo to halt French TV plans

By Robert Graham in Paris

The financial crisis in South Korea has forced Daewoo, the Korean industrial conglomerate, to halt plans for a FFr1.7bn ($292m) investment in a cathode-ray glass tube plant in Lorraine, eastern France.

Also understood to be affected by the same decision is the proposed expansion of a television set plant and plans to produce refrigerators also in the Lorraine region. This move by Daewoo is the first evidence of South Korea's problems extending to France.

The news provoked a swift reaction over the weekend from trade unions who called on the government to put pressure on Daewoo to revoke its decision. Union leaders said they feared this could herald a broader retreat by Daewoo after losing "faith in doing business in France".

Daewoo was left bitterly disappointed by the previous government's decision to block its 1996 bid to acquire Thomson Multimedia, the civilian electronics and television production side of the state-controlled Thomson group.

This would have allowed Daewoo to become the world's largest producer of TV sets with 15 per cent of the market.

Last Friday local authorities in Lorraine claimed Daewoo was holding back its planned investment because of uncertainties over proposals by Lionel Jospin's government to introduce a 35-hour week by the year 2000. But over the weekend it emerged the 35-hour week was only a small element behind the group's decision compared with the turmoil in South Korea. Daewoo is also reported to have little immediate need of extra capacity in Europe for making glass for cathode-ray tubes as a result of its recent purchase of Korea Electronic Glass.

# Japan's edgy markets buzz with rumours

At the sound of the word *tobashi*, Koichi Kane, managing director of Kokusai Securities, Japan's fourth largest broker, frowns.

"These rumours are completely unfounded," he said angrily, referring to reports that Kokusai had hidden losses that had been shuffled between accounts, a practice known as *tobashi*.

"There are many market rumours now because people are nervous. But you have to wonder who is placing them." It is a question many ask in Japan as its markets buzz with rumours after the collapse last week of Yamaichi Securities and revelations that it had Y260bn ($2bn) in *tobashi* losses.

Some Japanese officials think they know the answer. On Friday Yasuda Trust, an ailing trust bank, alleged that "groundless rumours" spread by traders had been the reason its share price plunged 40 per cent last week.

Similar allegations are being echoed by other companies, after Yamaichi's failure triggered a sharp drop in the share price of several banks and brokers.

And these allegations have prompted the Ministry of Finance to ask the Securities Exchange Surveillance Commission (SESC), Japan's financial watchdog, to investigate whether such negative rumours have been "deliberately" spread to drive down the share price of companies. If they find evidence that traders have done this to make profits, they will prosecute, they warn.

The investigations are likely to cover several western companies, including the US investment bank Morgan Stanley.

Western bankers insist that such allegations are naive. Though the market has been full of rumours, they argue these are inevitable in times of high volatility. This has been made worse because of the country's poor record in disclosure, they add. Yamaichi, for example, was rumoured to have *tobashi* losses long before they were officially acknowledged last week.

But the SESC's move has alarmed some western bankers – and left them wondering if it hints at a backlash against both market forces and foreign banks after the shock of Yamaichi's collapse. "There is a tendency to blame foreigners when things go wrong in Japan," mutters one western banker, who like many has become increasingly nervous of making negative comments in public. "We may be seeing this again."

So far, at least, such fears appear premature. It is not clear what action, if any, the SESC will take. And the officials behind the SESC's investigation do not represent all opinions in the government. The Bank of Japan, for example, has carefully avoided attributing any blame to "speculators".

Indeed, some western diplomats suspect the SESC's actions were simply made to placate angry Japanese politicians and bankers after a frenzied and exhausting week. "Some officials have barely slept for days. People feel emotional," one said.

As it happens, Kokusai has been one of the luckier concerns. Its share price dipped after the rumours surfaced in October of *tobashi* deals. But it rebounded when the company denied it. And last week the share price rose, as investors flocked to buy shares in a broker considered one of Japan's most profitable and healthy.

"When a rumour comes up in the current psychological climate it can have quite a bad effect," admitted Mr Kane. "We just explain to investors that the rumours are not true – it's just traders' chat."

See Comment and Analysis

**Gillian Tett**

# China rules out currency devaluation

By James Harding in Shanghai

China will not devalue its currency to boost exports, despite the recent devaluations in rival manufacturing economies in Asia which threaten to undermina the competitiveness of Chinese exporters.

Zhu Rongji, vice-premier in charge of the economy, said over the weekend that China would not adjust the value of the currency, the yuan, but might use other means to promote exports.

"In the face of the devaluation of currencies in south-east Asian countries, China wlli take measures to increase the competitiveness of its exports and its absorption of overseas funds," Mr Zhn was quoted as saying yesterday in the Peopie's Daily, the official newspaper.

"It has no need of and will not resort to methods that would mean a devaluation of the yuan," he added.

Chinese exporters have been putting discreet pressure on the government for a devaluation to restore the competitive advantage they fear may have been lost to south-east Asian competitors, whose devalued currencies will cut the prices of their prodncts ou international markets.

Meanwhile, the domestic currency markets have seen pressure for an appreciation of the Chinese currency, reflecting the strong demand for the yuan in China and the view of many economists that the currency has been undervalued since an aggressive devaluation at the beginning of 1994.

China's forecast 9.5 per cent growth this year has been driven by the strong performance of the external sector and supported by the continuing growth of foreign direct investment.

However, the recent devaluations by export-oriented economies in Asia and the unravelling of the financial systems in Japan and Korea, two of China's most important markets and inward investors, have raised concerns of a marked slowdown in export growth and a possible decline in foreign investment next year.

Mr Zhu, who is widely expected to succeed Li Peng as prime minister next year, was quoted as saying China would be able to maintain economic growth of 8 to 9 per cent per year into the early years of the next century.

He did not clarify the measures which might be taken to assist Chinese exports, hut Beijing officials have recently suggested that taxes and export tariffs might be adjusted to help lift the competitiveness of exporters.

Separately, Mr Zho has said the government would consider reintroducing preferential tax treatment on capital equipment imports for foreign companies, a move intended to reinvigorate foreign investment into China.

Mr Zhu's comment that China will not devalue the yuan reinforces the sense that the leadership's chief priority is a stable exchange rate.

In private, central bank officials have also said they are aware of concerns that a devaluation of the yuan could destabilise the Hong Kong dollar, prompting further speculative assaults on the territory's currency.

In recent weeks, there has been strong upward pressure on the Chinese yuan, which reached its highest level in over two years last week when it touched Yn8.279 to the US dollar.

China's foreign exchange market is tightly controlled by the People's Bank of China, the central bank, which has sought to keep the exchange rate within a narrow band around Yn8.3 to the dollar.

# Beijing urged to speed tariff cuts

By Guy de Jonquières

The US and European Union will this week urge China to build on its latest diplomatic efforts to speed its admission to the World Trade Organisation by committing itself firmly to faster and deeper tariff cuts.

China outlined proposals for a new approach to its WTO application to the US last week. These have been welcomed by President Bill Clinton who told China's president Jiang Zemin they provided the basis for intensified negotiations.

Sir Leon Brittan, EU trade commissioner, called China's initiative a "major step forward", which showed real commitment to tha long-stalled membership talks. He claimed the offer was modelled on negotiating "principles" which he proposed to Beijing in October.

Western officials said China appeared to be taking a more constructive stance in response to recent moves by the US and EU to close ranks in the negotiations, after a long period in which they were often openly at odds.

The officials said Charlene Barshefsky, the US trade representative, had briefed Sir Leon in detail on China's latest offer, which Wu Yi, its international trade minister, gave her at a meeting in Vancouver last week.

Although the full contents of China's offer have not been disclosed, it is understood to centre on a formula which provides for a more comprehensive and systematic approach to negotiating tariff cuts on imports of industrial products.

The formnla appears intended to respond to western complaints that China's previous tariff offers in the WTO talks have involved piecemeal reductions, which left many of its highest import dnties intact.

EU negotiators said China's proposals could have a decisive impact on its WTO application if Beijing quickly turned them into a firm and detailed timetable for sharp reductions in tariffs on a wide range of specified imports.

The US and EU are pressing Beijing to cut tariffs on many industrial products to no more than 5 per cent by early next century and to phase out tariff-quotas on imports hy fixed dates.

Negotiators said successful completion of the talks also depended on China agreeing to accelerate removal of other important trade barriers, in particular in areas such as agriculture, services, distribution and subsidies.

China's latest proposals cover liberalisation of services. But it is still unclear whether they go beyond Beijing's services offer last month, which the US and EU have dismissed as inadequate.

The WTO working party handling China's accession request will meet in Geneva in Friday. It will be preceded by separate negotiations between Beijing and the US, the EU and other WTO members.

## China 'must build on its efforts to join World Trade Organisation'

# Anti-dumping duties lifted on Korean D-Rams

By Neil Buckley in Brussels

The European Union has lifted anti-dumping dnties on South Korean D-Rams, the most common type of computer chip, after manufacturers reached an industry-to-industry accord on data collection. It may do the same for Japan if a similar agreement can he reached.

Ramoving measnres against both countries could end one of the EU's largest and longest dumping disputes, after minimum pricing undertakings were imposed on 11 Japanese manufacturers in 1990, and three South Korean groups in 1993.

D-Rams, or dynamic random access memory chips, are the basic building block for intelligent electronic devices from video recorders to PCs. The EU market is worth some Ecu5bn ($5.7bn) a year, with Japanese and Korean manufacturera accounting for 80 per cent.

Anti-dumping measures were suspanded for 21 months from 1995, after a rise in D-Ram prices. But they were re-imposed in phases between March and June this year, after a worldwide slump in chip prices, despite complaints from EU electronic goods manufacturers that this would push up their costs.

The EU industry body – the European Electronic Component Manufacturers' Association (EECA) – began talks in July with its Korean and Japanese counterparts on an industry-to-industry accord that would allow the duties to be lifted, but swift investigation of any future dumping complaints.

EECA reached a reciprocal accord with the Korean Semlcondnctor Industry Association in September requiring manufacturers to collect data on cost of production and export prices.

Tha accord contains no minimum pricing element, and has been cleared by the European Commlssion's competition authorities. It is similar to a deal reached on another type of semiconductor chip, "flash" Eproms, and is seen as a model for resolving dumping disputes in other sectors.

# EU goes ahead with ban on Polish milk

By Michael Smith in Brussels

The European Union today implemented a ban on all imports of Polish milk and dairy products in a dispute which threatens to cast a cloud over negotiations on Poland joining the EU.

The European Commission ordered the han after EU inspectors found a "significant hygiene and operation failure" in two of four industrial premises they visited late last month.

Until Poland satisfies EU demands on the dairy and other industrial facilities, it will be prevented from exporting milk and dairy products worth Ecn38m ($43m) a year. European Commission officials say it could take weeks to sort out the difficuities even if Poland produced plans for upgrading the faciiities immediately.

Jerzy Buzek, Polish premier: disputed EU veterinary inspectors' findings

Milk is one of two trade disputes between the EU and Poland. The other is over steel. Commission officials want Poland to prodnce a plan for restructuring its steel industry and to implement next year a promised cnt in tariffs on EU steel imports from 9 per cent to to 3 per cent. They fear the authorities are dragging their heels.

Both disputes demonstrate the problems Poland faces sorting out its industries ahead of its proposed entry into the EU early in the next century. Talks on entry are expected to start early next year.

Poland wants to join in 2001 but EU officials think it will take some years longer and that long "transition periods" will be needed to bring Polish institutions and indnstries into line with those of existing EU countries. Poland's agriculture sector is seen as one its higgest prohlems since more than a quarter of the country's workforce are empioyed in it but contribute just 10 per cent of the country's gross domestic product.

The Commission is concerned that relatively iow veterinary and hygiene standards in Poland and other countries seeking EU entry will act as a barrier to the eventual creation of a single market encompassing both existing and potential EU members.

The EU allowed the sale of Polish milk to member countries on the basis of an official list of 40 agreed establishments which the Polish authorities said met European standards. The iicence allowing imports from the 40 ended at midnight.

During a visit to Brussels last week, Mr Jerzy Buzek, Poland's prime minister, and colleagues, disputed EU veterinary inspectors' findings and said the quality of Polish milk was high. However, Mr Buzek said there was a will to sort the steel and milk issues and to prevent tham inhibiting Poland's negotiations to join the EU.

# New offer by US on leg-hold traps

By Neil Buckley in Brussels

The US has made a late offer to phase out leg-hold traps used for trapping animals within six years, which may be enough to avert a ban on US fur exports to the European Union due to take effect today.

Washington communicated the proposals – which improved an earlier offer to phase out the traps within eight years – to the European Commission late on Friday.

EU ambassadors meeting this morning are thought likely to accept it, despite the fact that it fails short of commitments from Russia and Canada to ban the traps within five years.

EU ministers had threatened to ban US exports of fur caught using the traps – worth about $20m a year – unless the US made an offer "at ieast eqnivalent" to Jniy's deal with Russia and Canada.

The EU has sided with animal welfare supporters who say steel-jawed traps are inhnmane because they cause animals unnecessary suffering.

The US has argued, however, that trappers could be put ont of business because of the lack of effective alternatives.

Washington offered in September to restrict use of the traps, hnt not ban them. It proposed last Wednesday banning the traps for ermine and mnskrat within four years, and for other species within eight years, bnt this was immediateiy rejected by the EU.

Agreement on trapping would defuse one of several trade dispntes threatening to mar the twice-yearly EU-US summit starting in Washington on Friday.

Attention may shift to resolving a row over EU rules taking effect next month on bandling cattle by-products, designed to curb "mad cow" disease.

## Palestinians say latest West Bank pullback plan offers 'nothing new'

# Israel to make new peace offer

By Avi Machlis and Judy Dempsey in Jerusalem

The Israeli cabinet yesterday authorised three senior ministers to draw up proposals for a final settlement with the Palestinians combined with an Israeli troop withdrawal from the occupied West Bank.

However, the cabinet also reaffirmed its commitment to continue building Jewish settlements in the West Bank which Palestinians regard as the main stumbling block to reviving peace talks. Palestinians said the decision contributed nothing towards breaking the stalemate in the peace process.

Danny Naveh, Israeli cabinet secretary, said the cabinet was likely to reconvene in one week to discuss proposals by David Levy, foreign minister, Yitzhak Mordechai, defence minister, and Ariel Sharon, infrastructure minister. The cabinet said any troop withdrawal would be conditional on a Palestinian crackdown on militants.

The cabinet did not decide how much land it would hand over – only 3 per cent of land in the West Bank is under full Palestinian control. Instead, Israel linked any redeployment to a final settlement package. Several ministers, including Natan Sharansky, trade minister, have insisted on knowing Israel's future borders in the final settlement with the Palestinians before any troop redeployment.

Saeb Erekat, senior Palestinian negotiator, said there was nothing new in the Israeli cabinet statement, adding Israel appeared to be bypassing existing agreements on withdrawals.

In a meeting earlier this year attended by Dennis Ross, US Middle East envoy, Mr Erekat said, Israel agreed to hand over land in three stages: last March, last September and in March 1998. "All we want Mr Netanyahu to do is to precisely and eccurately implement existing agreements," he said.

Palestinians rejected Israel's decision to pull back from a mere 2 per cent of the West Bank earlier this year, in what was to be the first of the three redeployments. The redeployment was never carried out as the peace process came to a standstill after Israel started building a new settlement at Har Homa in east Jerusalem.

Benjamin Netanyahu, the prime minister, has long pressed the Palestinians to begin accelerated permanent status talks. Palestinians have been reluctant, fearing this would sideline Israel's obligation to hand over land to the Palestinians according to interim accords.

Permanent status talks are meant to address the thorniest disputed issues between Israel and the Palestinians, including borders, the fate of Palestinian refugees and the status of East Jerusalem and Jewish settlements in the West Bank.

Benjamin Netanyahu at yesterday's cabinet meeting Reuters

# Bullish Saudis confident of higher demand for oil

Opec's decision to raise its prodnction ceiling was seen as a gamble by one oil analyst in Jakarta yesterday.

Saudi Arabia, dominant member of the Organisation of Petroleum Exporting Countries, orchestrated the deal, which will result in the formal ceiling being raised from just over 25m barrels a day to 27.5m b/d. This will allow the big Gulf producers such as Saudi Arabia, Knwait and the United Arab Emirates to boost output for the first time in four years; Saudi Arabie's production will rise to 8.76m b/d, its highest since the early 1980s.

Some analysts believe the increases, coming on top of existing over-production by countries such as Venezuela, could result in overall Opec output next year of 28.5m b/d or more, e level that many believe may be too high.

The Saudis, however, came to the Jakarta meeting armed with a sophisticated analysis of what they believe is likely to be continuing buoyant demand for Opec oil. They say Saudi Aramco, the state oil group, has experienced a rising interest on the part of potential buyers, especially in the US and some Asian countries such as Japan and China.

The kingdom's confidence has also been boosted by the accuracy of Saudi forecasts in the past two years about the level of demand for Opec oil, and new supplies from non-Opec countries. The Saudis believe non-Opec producers will only be able to meet half of next year's expected increase in world demand of around 2m b/d.

But there are several unquantifiable factors which the Saudis are clearly hoping will support their bullish view, but which could just as easily undermine it. "The winter weather is an important factor," said one Gulf official.

The financial turmoil in southeast Asia is another big unknown. The region is an important customer for Middle East oil, and has recently recorded some of the highest growth rates for oil demand.

Iraq remains one of the biggest uncertainties. The Saudis believe Opec should not be held hostage to the constant uncertainty over whether Baghdad will continue to export crude under the UN oil-for-food programme. But analysts note that if the higher Opec ceiling triggers a price fall and Iraq remains in the market, it would then need to raise its exports to reach the $2bn valuation target set by the UN.

But supporters of the higher ceiling say there are other implications that should lend support to prices. The increased quotas for the three big Gulf producers means that the world's spare oil production capacity will fall to a level which some observers say is "dangerously low."

After January 1 excess capacity outside Iraq will fall by a third to just 2m b/d, or about 2 per cent of world oil demand, with the biggest chunk of it in Saudi Arabia.

**Robert Corzine**

# UN may ease sanctions

By Laura Silber in New York

Kofi Annan, UN secretary general, is poised today to suggest allowing Iraq to sell an increased amount of oil in exchange for humanitarian relief after Baghdad said it accepted "in principle" e renewal of the UN deal.

The stand-off over sites Iraq has declared out of bounds was set to continue yesterday. Iraq urged UN diplomats to accept its invitation to visit presidential palaces, where UN inspectors believe weapons may be concealed. It said, however, that visits to the palaces by UN inspectors would violate Iraq's sovereignty.

On Saturdey Baghdad reversed an earlier decision not to renew the oil-for-food programme until disputes over contracts, deliveries and letters of credit were resolved. "Iraq does not object, in principle, to the renewal of the agreement for oil in return for food, medicine, and other humanitarian needs with the UN," said an Iraqi official. He added that Baghdad viewed the deal as temporary and not as e substitute for lifting sanctions altogether.

The current phase of the programme, which allows Iraq to sell $2bn of oil with the proceeds controlled by the UN to buy food and medicine, expires on Friday.

Mr Annan's proposal to the Security Council today comes as UN relief agencies say the humanitarian situation in Iraq is dire. Some 960,000 or 32 per cent of Iraqi children under five years of age are chronically malnourished, according to the UN Children's Fund. This figure represented an increase of 72 per cent over 1991, the year after sanction were imposed.

In Baghdad, thousands staged a mass funeral yesterday for dozens of children who Iraq claims have died in the last two days due to a lack of food and medicine.

The UN imposed sanctions, inclnding an embargo on oil exports, when Iraq invaded Knwait in August, 1990. Washington insists they will remain in force until UN disarmament experts certify that Iraq has fully dismantled its weapons of mass destruction and their production facilities.

# Reno pressed on Clinton cash

By Nicholas Timmins in Washington

Senior US Republicans yesterday fought to keep alive allegations over the financing of President Clinton's 1996 re-election campaign ahead of an expected decision this week by Janet Reno, the US attorney-general, not to appoint an independent counsel to investigate them.

Leading Democrats are arguing that a decision by Ms Reno not to proceed will effectively kill the whole issue. Bnt Orrin Hatch, Republican chairman of the Senate judiciary committee, predicted "a lot of problems" if the investigation did not go ahead.

Ms Reno has to decide by tomorrow whether to appoint an independent counsel to examine the extremely narrow issue of whether President Clinton and Vice-President Al Gore misused White House telephones to raise funds.

Mr Hatch, however, argued on television news shows that these were "technical violations" and a "red herring". What needed investigating was the whole issue of funds raised for general campaigning which were then used to promote Mr Clinton's personal campaign for re-election, and whether foreign money was used to influence the outcome.

There was good evidence, he said, "that there have been violations of the law, or there may have been violations of the law that need to be investigated". Those were the important issues. There was also, he claimed, a plain "conflict of interest" in Ms Reno, appointed by Mr Clinton, making the decision.

"I hope sbe does proceed," he said, citing reports of a split between the Federal Bureau of Investigation and the Justice Department over the issue. Louis Freeh, the FBI director, is said to favour an independent counsel, while Ms Reno is opposed. Appointing one, Mr Hatch said, would end charges of a conflict of interest and that Ms Reno was "hiding behind" the technical question of the use of White House phones to bury the whole issue.

Barney Frank, Democratic congressman from Massachusetts, welcomed Senator Hatch's concession that the phone calls were not the issue. The real problem, he argued, was the weakness of the law on campaign financing. "Every allegation about soft money and everything else applies to both parties."

In coming to her decision, Ms Reno has said she will not close down any avenue of inquiry without the agreement of Mr Freeh. With the Senate hearings on the issue abandoned and those in the House of Representatives making little headway, his remains the key voice that could still leave the White House under pressure on the issue if Ms Reno's decision goes as expected.

See Editorial Comment

# Egyptians wooed to save tourism

By Mark Huband in Cairo

Egypt's national airline has been ordered by the government to cut domestic fares by 50 per cent for three months in response to the crisis facing the tourist industry since the massacre of 58 foreign tourists near Luxor two weeks ago.

EgyptAir has also been instructed to increase the number of domestic flights in the hope of encouraging Egyptians to visit tourist destinations.

Mohamed Rayan, chairman of the state-owned airline, said the number of foreigners flying EgyptAir fell by 19 per cent immediately following the attack. Flights from Europe and Japan, where the bulk of the murdered tourists came from, have arrived with as few as 10 passengers on board.

The number flying to Luxor has fallen by 72 per cent. Hotels there have recorded between 5 and 10 per cent occupancy levels.

EgyptAir has not yet assessed the cost of its price cut, nor what potential may lie in an expansion of the domestic market. Kamal el-Ganzouri, the prime minister, yesterday asked banks to review the debt repayment schedules of tourist developers. Banks have yet to respond to a request to suspend loan repayments for three months.

The government has strongly advised hoteliers to avoid mass lay-offs. So far this strategy appears to have been followed, as hotels in Luxor have opted to give staff paid holiday while hoping for the return of visitors.

However, with some foreign tour operators cancelling Egyptian holidays altogether, Red Sea and Sinai resorts, which have been totally unaffected by the militant Islamist violence witnessed in Luxor and elsewhere since 1992, are now also experiencing a catastrophic fell in the number of visitors.





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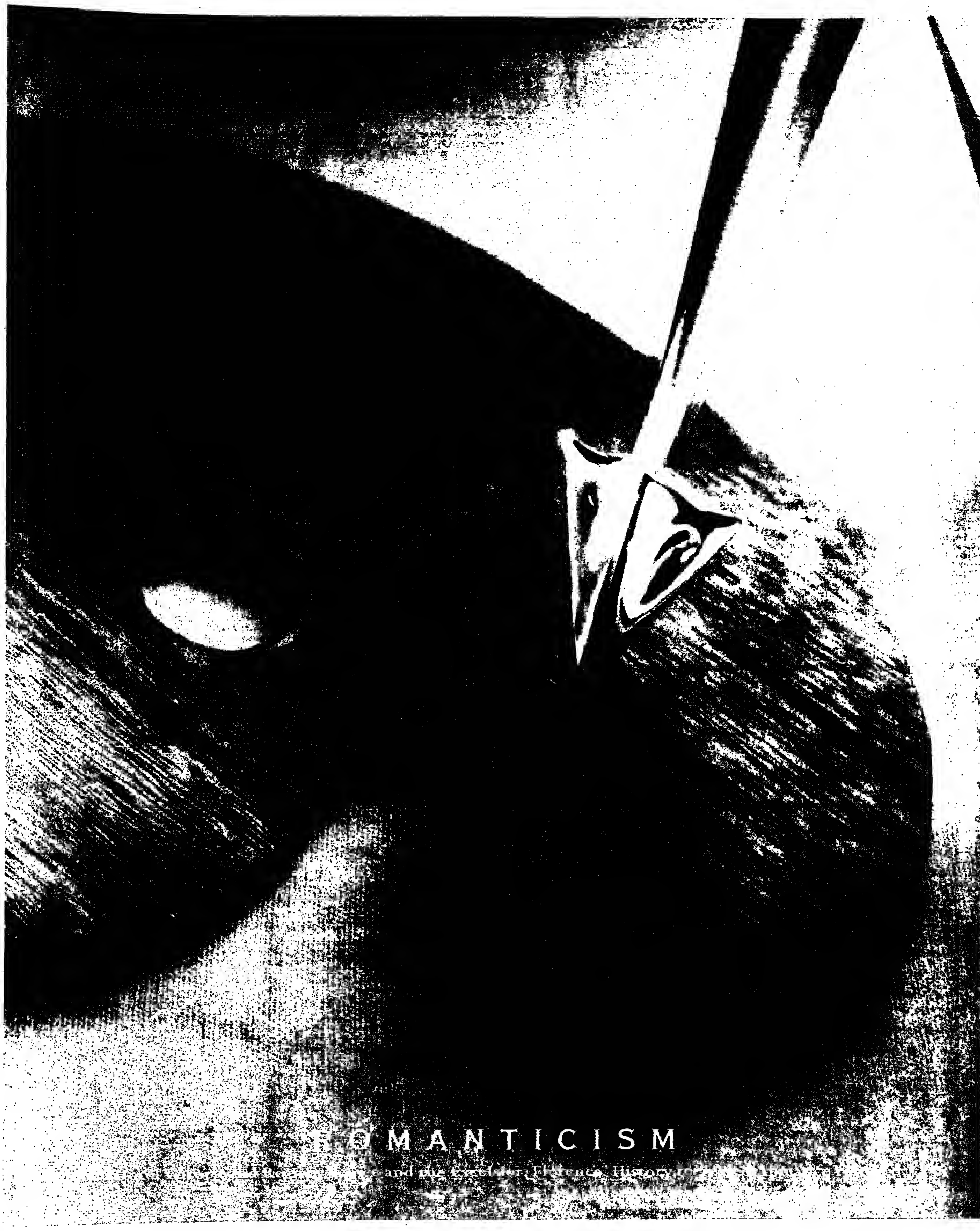


# Electricity competition may face delay

By Simon Holberton

Retail electricity competition is unlikely to start on schedule on April 1 because of changes in the technical systems required to transmit data between companies, industry executives have said.

Full testing of new systems is not expected to begin until mid-January or the beginning of February, shortly before Stephen Littlechild, the electricity regulator, has to tell the government whether the April start date can be met.

The attempt to bring competition to Britain's 25m household consumers of electricity has faced problems since 1995. The competitive market depends on large transfers of data between companies, hut thare has been poor co-ordination between the companies.

John Battle, ecience, energy and industry minister, said in tha summer that he would take responsibility for successful introduction of competitlon, hut hie efforts appear to bave had little impact.

Industry executlvss believe retail consumers of electricity will have to wait until July next year at the earliest, hut more probably until October, before the electricity companies will be ready to participate in the competitive market.

"If the companies start trials in February who, with any credibility, could make a decision on 15 February to stay with April 1?" asked one consultant, referring to that date on which Professor Littlechild has to advise the government.

Two weeks ago industry exectives met at industry regulator Offer's Birmingham headquarters to assess what needed to done to upgrade business processes, such as billing customers and data transfer hetween companies when charging for power or exchanging customer information.

That meeting reviewed 400 recommended changes to the system and agreed 90 per cent of them needed to be made. Experts say the "gaps and inconsistencies" in the first version of the design specification were much greater than thought.

Business consultants said the changes would take a month to six weeks to incorporate into the plans of Britain's 14 public electricity suppliers. Allowing for internal testing for a month, the industry could be ready for integrated testing hy the beginning of February.

Experts claim insufficient time is being allowed for rigorous testing of the systems. Electricity companies have also refused to sign new licence conditions which Offer says are needed.

New licences include provisions for penalties in the event an electricity company is late in joining the competitive market. Companies argue they can not sign the licences when the hasic deslgn of the competitlve market is unfinished.

Cabinet unity on the crisis facing the coal industry is coming under strain, with several members, including John Prescott, the deputy prime minister, lohbying for a more interventionist approach to save jobs, John Kampfner and Simon Holberton write.

Tony Blair, the prime minister, and Gordon Brown, the chancellor, are under pressure to produce a package to avert the loss of up to 5,000 jobs in deep coal mining following the failure of RJB Mining, Britain's higgest mining group, to secure enough orders to keep its staff in work.

Colleagues say Mr Prescott has been promoting measures to obllge generators to increase coal stocks.

National Power, Britain's biggest consumer of coal, said it was already bolding coal stocks in excess of minimum requirements. It said it was "not on" for one private sector company to be required to subsidise another, and that 90 per cent of the coal it had bought for next year was British.

RJB is not expected to take any pit closure declsions until it has concluded negotiations with PowerGen, its last big power industry customer.

# Ex-chancellor 'would share Emu platform with Blair'

By Liam Halligan and John Kampfner

Kenneth Clarke, the former chancellor of the exchequer, has revealed he is willing to share a platform with Tony Blair, the prime minister, in a referendum debate in favour of a single currency.

Friends of Mr Clarke describe as "inaccurate" reports that he would join a cross-party movement supporting European economic and monetary union during a referendum campaign, expected around 2002.

But he would, say colleagues, "speak from the same platform as Mr Blair, if the proposed terms of Britain'e entry into Emu were right".

Such a move which would put Mr Clarke at loggerheads with William Hague, leader of the Conservative party, and suggest Tory divisions over Europe whicb undermined the party at the May general election are likely to increase.

Mr Clarke bas told pro-European colleagues that unless the party becomes less hostile towards Emu, it will finish third at the next election, behind tbe Liberal Democrats.

"His golden rule is that British elections are won on the political centre-ground," said anotber pro-European Tory MP.

"Ken feels that Euroscepticism will be extinct within 20 years, and possibly the Tory party with it. Ken says Hague is only becoming more Eurosceptic because he's worried about a possible leadership battle once [Michael] Portillo returns to the Commons". Senior figures in Mr Hague's team acknowledge that Mr Portillo, a leading Conservative who lost his parliamentary seat at the last election, is exerting considerable influence and biding his time for a return.

It has also emerged that Mr Clarke, who still harbours ambitions of leading his party, has not spoken to Mr Hague since the night of tha July leadership contest – wben he attended Mr Hague's victory reception.

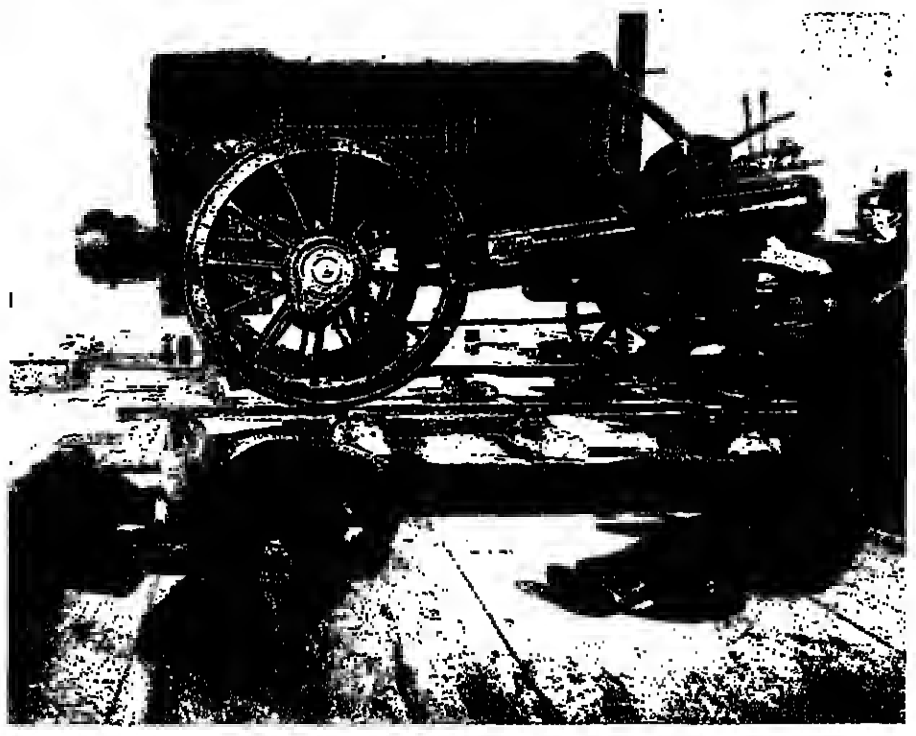
Since then, the two pivotal Tory MPs have limited themselves only to exchanging pleasantries while voting in the Commons.

Lord Parkinson, the Conservative party chairman, admitted yesterday that Mr Hague was still "finding his feet".

Many senior Conservatives blame Mr Clarke for preventing the party from campaigning on a more openly anti-Emu ticket.

Mr Hague bas hardened policy, committing the Tories to oppose the single currency for the lifetime of two parliaments.

# Stephenson's Rocket set for launch in Japan



Staff at London's Science Museum prepare to pack up George Stephenson's Rocket (right), an icon of the industrial revolution, for a flight to Japan, Clive Cookson writes.

The 1829 locomotive is among 50 of the museum's most prized objects – also including Arkwright's Spinning Frame and Babbage'e Calculating Engine – being sent overseas for the first time next year. They will form the scientific centrepiece of Festival UK 98, the biggest display of British science and culture ever seen in Japan.

The festival's artistic highlight will be an exhibition, "Masterpieces of Britisb Art from the Tate Gallery", opening next month at the Tokyo Metropolitan Art Museum.

One hundred of the Tate's finest paintings from 1600 to 1980, by artists such as Hogarth, Gainsborough, William Blake, Turner, Sargent, Whistler, Bacon and Freud, are included.

Neither the Science Museum nor the Tate would normally send so many star exhibits abroad at the same time.

However, they are in a position to do so now because their collections are being reorganised in preparation for new displays and galleries, funded partly hy the National Lottery.

"In the ordinary course of events, it would not be regarded as acceptable to take so many seminal objects off display for a foreign loan," said Doron Swade, project director for the Science Museum's Japanese exhibition. "But, rather than put them into temporary storage, it is better to show them in Japan."

Festival UK 98 is organised jointly by the British Council and the Foreign Office through tha British Embassy in Tokyo. It is funded hy a wide range of commercial sponsors.

*Photograph: Colin Beere*



# Robot cleaner offers hope of domestic bliss

By Vanessa Houlder

The end of one of the most tedious and time-consuming of domestic chores will be beralded today when Electrolux, the Swedish household appliance manufacturer, unveils the prototype of a robot vacuum cleaner in London.

Electrolux wants to gauge consumers' reaction to the device, which uses radar to find its own way around a room, dodging furniture and walls as it cleans. The robot is unlikely to go into production for at least three years.

"We are still investigating how to translate the prototype into a robust, high-performance prodnct. That will take some time," said Ian Symes, Electrolux group marketing director.

Electrolux believes that the product could potentially appeal to a mass market, if it can cut the cost of the product.

"People are always asking us how we can make cleaning less laborious and back breaking. This product is so unique and offers such new opportunities that we are genuinely excited about it," said Mr Symes.

When placed on the floor, the cleaner – the size of a large cake tin – uses radar to find the nearest wall and vacuum around the edge of the room. Then it cleans the rest of the room in irregular stretches, slowing down and moving out of the way when it approaches an obstacle. If it knocks into anything, a rubber humper absorbs the shock.

The cleaner, which can move over carpet edges and cables, is designed to extricate itself from corners and dead ends. It can also be guided by a remote control device. When it is not in use, the battery-operated cleaner is stored on a recharging device.

Electrolux acknowledges that the robot will have to be used in conjunction with a traditional vacuum cleaner when a room has to be cleaned quickly.

Electrolux estimates that it will take between three and seven years to introduce the product, depending on the pace at which it achieves the necessary technological refinements.

Electrolux already sells a commercial verslon of a robot cleaner in the US.

# Regions fear loss of aid as EU club expands

## Pressure on assistance grants may rob some areas of their priority status

There is scarcely a hotter topic among those concerned with regional development in Britain than what will happen to European aid after 1999. Fears are rife tbat funds will be in short supply as the European Union tightens assistance in preparation for the entry of new members from eastern Europe.

The sums involved are massive. From 1994-1999 Britain's regions will receive £8.7hn ($14.5bn) from EU structural funds. When UK co-funding is added, this creates total investment of £16.9bn.

The mooey is spent on projects ranging from education and training to infrastructure, support for small and medium-sized businesses, innovative tecbnology and environmental protection.

The UK has three regions whicb qualify for objective 1, the EU's highest category for assistance. Northern Ireland is receiving £830m, Merseyside in northern England £550m and the Scottish Highlands and Islands £210m.

But Eneko Landaburu, the EU's director-general of regional policy and cohesion, has said Northern Ireland and the Highlands and Islands are likely to lose their objective 1 status in 2000-2006.

Merseyside will retain its status, and South Yorkshire in northern England, which has suffered drastic job losses in the coal industry, is expected to qualify for the first time. But Cornwall in the south-west, which wants to he included, will be rejected because it is not large enough to be considered a region. These likely changes are based on provisional data, due to be finalised early next year.

Regions qualifying for objective 1 must have gross domestic product per head which is 75 per cent or less of the EU average. The EU Council of Ministers will make decisions over changes later in the year, and regions losing objective 1 status will have a transitional period of some years for funding to be phased out.

However, Mr Landahuru warned that the UK, along with other countries, would also be affected by plans for the new objective 2 category – covering areas hit hy industrial decline and urban or rural deprivation – to focus on a smaller proportion of the population.

Ironically, it was Jeff Ennis, a member of parliament from South Yurkshire, who expressed fears most graphically in the House of Commons two weeks ago. The UK faced the possibility of losing all its regional aid, be warned – a fear which now looks exaggerated.

European aid had put the South Yorkshire town of Barnsley back on the road to recovery after the loss of 14 coal pits and 20,000 mining jobs. "Brussels must not be allowed to walk away from a joh that in our areas is only half done," Mr Ennis said.

David Watts, a Merseyside MP, called on the government to fight for every area with objective 1 and 2 status. Ted Rowlands, an MP from Wales, warned that the changes would fail to take account of hidden unemployment in his region.

Gaining objective 1 status would cheer South Yorkshire, hut other regions would remain worried, particularly about the proposed new objective 2. Under the existing objective 2, 13 declining industrial areas from western Scotland to Thanet in Kent, south-east England, are receiving £3bn, and under objective 5b, 11 rural areas are getting £550m.

The government accepts that existing EU member states will face significantly lower receipts in the next century, but believes the European Commission's proposals are not fair to Britain.

The main criteria for the new objective 2, in line with the Amsterdam treaty, will be unemployment and deprivation. Britain fears that two factors will cause it to lose out: first, that International Lahour Organisation joblessness figures, which the Commission uses, leave the UK three or four points below the EU average; and second, that Britain's heaviest job losses happened back in the 1980s.

Mr Landaburu hinted at a compromise whereby global figures would be set for the percentage of population to be covered, but that precise areas would be decided in partnership with national governments, taking other factors into account.

**Brian Groom**

## THIS WEEK

# New meaning to blood relations

DATELINE

**Tokyo: The popular Japanese fascination with blood types can be disquieting for a westerner, writes Gwen Robinson**

Japanese society, like many others, feeds on a never-ending diet of faddish issues. From the rise of bullying in schools to groping on subways and the rapid deterioration of young women's morals, the issue of the moment is examined and dissected for months on end.

Some topics, such as Japan's ongoing financial crisis, command more attention than others. The collapse of several large financial institutions in the past month has transformed the economy into a hot topic for tabloids and afternoon television programmes.

But some issues – even ones of perennial interest – are not discussed by the media at all. One such is the popular fascination with blood types, a topic I only discovered held enormous interest for the Japanese public after six mooths in the country.

It was when I applied for membership at a local video store and was given a form asking for the usual information about address and identification. But there, at the and, was a question about my blood type. Even on visits to the doctor, I have trouble remembering my blood type. I keep a medical card in my wallet stating my blood type and other details, so why bother to remember?

In Japan, many people have committed not only their own blood type to memory but that of their family mambers, friends and even their colleagues. But the local video store? In most western countries, such a question would probably contravene privacy regulations.

More intrigued than outraged, I approached the young man behind the counter. Why did the shop need to know my blood type before I was allowed to rent a video?

The hapless clerk was startled and confused, then clearly embarrassed. After fumbling for an explanation, he told me to leave the space blank. "I think that question is more for Japanese people," he said.

Later a Japanese friend told me that the store probably categorised customers by blood types and the characteristics commonly ascribed to them. The categories would most likely be along the lines of "reliable," "unreliable" and "average."

The majority of Japanese are type A, regarded as honest and orderly. Type Bs are seen as erratic but creative, while type ABs – a minority in Japan – are generally regarded with suspicion. Type Os, commonly associated with westerners, are regarded as hearty, often insensitive characters.

I was interested to know whether the shop's records bore out the popular theories; whether type As always returned their videos on time and whether type Bs were always late. Perhaps ABs never returned them. But such a pained expression crossed the clerk's face that I left him alone.

Some time after the video store experience, I met a young Japanese businessman who seemed interesting and intelligent. After perfunctory conversation, he blurted out: "What blood type are you?" Everything fell into place. I realised blood types were serious business in Japan. "I don't know," I replied, just to see his reaction.

Again, this elicited the same dumbfounded look as the video clerk had given me. "You should really find out," he said. He then confessed that he had been extremely fond of his last girlfriend, but his parents had opposed the idea of marriage because – yes – she was blood type B. He, "like most Japanese", was A, he said.

It was my turn to be astounded. Up came the nightmares of social engineering. It is one thing to worry whether your intended spouse had a family history of madness or fatal disease, quite another to decide someone's character on the basis of blood types.

There is no scientific evidence to support such beliefs. Yet many Japanese cling stubbornly to these notions. Of course, there are many who don't, but the believers are by no means limited to older generations. At least half the young Japanese I approached when asking about the issue would laugh self-consciously, but admit that the blood types theory could not be dismissed.

Such notions are reinforced each day in Japan. Some big companies take blood types into account when they are hiring, although none would acknowledge it. There are books and an industry of experts devoted to the subject. Young girls eagerly discuss the blood type characteristics of their favourite idols.

Comparing blood types may be considered a harmless game, like following the zodiac. But the most disturbing aspects of Japan's fascination with blood type are stories about discrimination at work and in society. Many such stories involve ABs – less than 10 per cent of the population – and who are sometimes made to feel isolated by co-workers. Worse are the stories of parents who oppose their off-spring's choice of partner due to blood-type differences, or even young people themselves who stop seeing someone for the same reason.

An American women's magazine picked up on the theme last year and tried to generate a blood type fad in the US. The story was headlined: "Secret Asian Love Formula." It featured a chart and guide to the best matches. "Japanese women believe the key to romantic bliss is finding a man with a compatible blood type. Take the blood test and latch on to a man who's your perfect match!" the article said.

The fad did not take off. Most Americans probably still don't know their partner's blood type.

## FT GUIDE TO:

## KYOTO SUMMIT

**I hear there's a big climate change summit starting in Kyoto today. Weren't they just discussing something similar in the US? And anyway, I thought the meeting they had in Rio a few years ago was a complete flop. What's different about this one?**

The gathering in Kyoto is a meeting of environment ministers from 150 countries. Over the next 10 days, they are supposed to negotiate real cuts in industrialised countries' emissions of greenhouse gases, which are believed by most scientists to cause global warming.

**Bnt hasn't there already been such an agreement?**

Sort of, but not exactly. At the Rio de Janeiro Earth Summit in 1992 to which you referred, world leaders pledged to stabilise emissions at 1990 levels by 2000. But only two countries, Germany and Britain, are on course to hit that target, albeit for reasons that have little to do with the environment. (Margaret Thatcher slashed subsidies to Britain's coal industry while Germany cut emissions by closing large chunks of inefficient industry in the former East Germany.) Apart from setting targets for 2010, rather than 2000, a Kyoto deal will be tougher than Rio because it will be legally binding. Also on the agenda will be how to eoforce whatever targets are agreed. One idea is that those who don't comply should be fined. The proceeds would help fund the transfer of climate-frieodly technology to developing countries.

**But the only thing I seem to hear or read about Kyoto is that governments are hopelessly divided.**

The differences are big, but not as large as they seem. The European Union's call for a 15 per cent cut in emissions from 1990 levels by 2010 is the most ambitious plan on the table. The US proposal that it should stabilise emissions at 1990 levels by 2010 has been attacked by the EU and developing countries as too weak. But given that US emissions are already 11 per cent above 1990 levels and would otherwise grow an estimated 14 per cent by 2010, tha US target in practice amounts lo a cut.

In defence of its failure to meet the 2000 target, the US says that its economy grew faster than expected, and that anyway, the Rio pledge was not mandatory. Even the majority of EU nations will not honour the 2000 target.

**Bot given such differences, how are governments going tn agree any targets, let alone legally binding ones?**

Japan believes that "a bad deal is better than no deal at all". The fact that this view is shared by most governments suggests that Kyoto will eventually produce a compromise in the final three days of ibe 10-day gatbering, when ministers take over the negotiations from officials.

**So what will they agree?**

The EU is likely to lose its fight for a flat-rate reduction target. Not least because it insists, somewhat bypocritically, that EU members be allowed individually tailored targets, from a 25 per cent cut for Germany to a 40 per cent increase for Portugal. Japan has also attacked the EU call for a 15 per cent reduction from 1990 levels as "unfair". Some nations, such as Japan, which has the world's lowest per capita emissions, have already done more than others to rednce energy waste. That is why Kyoto is likely to result in differentiated targets, based on how much they have done so far and how much they can do in future. Japan has proposed a basic 5 per cent cut allowing breaks for countries that have done most to reduce per capita emissions. That has a better chance of success than the EU plan.

**But does that mean that the agreement will do nothing to help the climate?**

No, not if the targets are strong enough to start triggering a change in the way energy is used. Even the US stabilisation target would require a big push to reduce fossil fuel waste and develop renewable energy sources. The main aim of Kyoto should be to tell industry that it must crack down on energy waste and accelerate the development of new products that reduce emissions. Because the ultimate goal is to cut emissions further by 2100, Kyoto will have to be followed by further cuts, inclnding a commitment by developing countries to curb their emissions.

**I hear the US won't agree to anything at Kyoto unless developing countries also take on some obligations. That seems like a sensible demand to make if their emissions are set to outpace industrialised nations' emissions.**

Well yes, but not immediately. Developed countries, including the US, said in Berlin two years ago that they would agree to making cuts first since they were responsible for most of the fossil fuel consumption associated with the problem. They also have ibe wealth and the technology to curb emissions. The US changed its tune this summer when the Senate passed a resolution that it would not ratify any treaty that did not include commitments for developing countries. Because the participation of the US, which has the largest emission of greenhouse gases, is vital to the success of the Kyoto deal, negotiators will seek a form of words that commits developing countries to start discussing emission cuts at a later date. Developed countries will have two years until the treaty goes to the Senate for ratification in order to strike a deal with developing countries.

**Leyla Boulton**

## The Monday Profile: Bertrand Collomb, Lafarge

# Admirer of the American way

Mahogany is the traditional material of choice for the desks of powerful corporate executives. Bertrand Collomb's is made of concrete. This suggests the 55-year-old Lafarge chairman is happy to break with convention when the occasion demands it, while saying much about his devotioo to the French building materials group he joined in 1975.

Last week was a very good week for the tall, dark, graduate of the elite *Ecole Nationale Supèrieure des Mines*. Not only did he win *Le Nouvel Economiste* magazine's manager of the year award, he also won control of Redland after the struggling UK tiles and aggregates company agreed to a £1.8bn ($3bn) takeover.

The deal marks an important step for the French company, taking it for the first time into roof tiles, an area where Mr Collomb thinks there is significant room for international expansion, and catapulting it into world leadership in aggregates.

This is a business which he believes puts particularly stringent demands on a company's operational effectiveness because there is little margin for error with a prodnct "that only costs £3 or 4 a tonne". Furthermore, distribution costs are often as high as production costs. "So you have to look at each location and say: 'Is that right? If not, should I swap it with someone else?'"

All told, the acquisition is set to lift Lafarge's turnover by 50 per cent to about FFr60bn (£6.07bn).

In spite of the effect on gearing, which is expected to rise temporarily to about 95 per cent, Mr Collomb makes clear he intends to keep the majority of Redland's operations, with disposals expected to amount to "much less than 10 per cent" of the combined group's assets.

"With an acquisition, you look for leadership, an opportunity to create value and an attractive new building-material product," he says. "It is fairly difficult to find all three, but we think we did with Redland."

With his impeccable English and University of Texas PhD, Mr Collomb makes no secret of his high regard for many aspects of Anglo-Saxon business culture. His outside directorships include the Canadian Imperial Bank of Commerce. He is one of the few French business leaders to list a private US address, as well as a Paris one, in his *Who's Who* entry. "I like the US approach where everything seems to be possible," he says.

He has made a name for himself in recent years as an early French exponent of the bottom line oriented management once shunned by the country's stuffy business establishment. With this approach taking root in more and more leading French companies, under pressure from the aggressive Anglo-Saxon institutional investors that own a growing proportion of their shares, he now finds himself regarded as something of a trend-setter.

He is not an uncritical admirer of the American way, however, recognising, as he puts it, that "some of the US social issues are tough".

"When I ran the US operation," he says, "I did not like the pink-slip approach where you give someone a slip on Friday and he is gone on Monday. I would like in Europe a society where there is more protection than in the US, but where there is efficiency of process and a recognition of the need for change."

By the same token, he maintains – contrary to popular belief in Anglo-Saxon business circles – that consolidation is perfectly possible to carry out in France, if management goes about the process in the right woy. "It takes time, attention, legal care, talking to the unions, but it is something that can be done – and will be done," he says.

At the same time, he emphasises that there "will not necessarily be a lot of closures" following the Redland deal. While synergies could result from plant closures, they could also come from optimising distribution. "There will be cases probably where plants will be closed, but there are a lot of cases where you can improve the efficiency of the system without closing plants down."

On the issue that is set to dominate the business agenda in France in coming months – the Socialist-led government's push to introduce a 35-hour working week – Mr Collomb manages to sound both worried and reassuring.

On the one hand, France is at "a difficult and dangerous moment", largely because "people have understood that the government's intention is to let them work less and be paid the same".

Yet, if the scope of negotiations is wide enough, taking in areas such as more flexible working hours and France's generous social charges, he appears reasonably optimistic about negotiators' ability to "design a system" that would not be damaging for French companies.

"What has been done is very dangerous, but the worst is not yet sure. If companies can have some flexibility and the political message is a little improved, maybe we can negotiate things."

**David Owen**



## Gerard Baker • Economics Notebook

# No Dark Age of deflation

### Fears of deflation stalking the world, especially the US, are overblown

The world really has been turned upside down. East Asian countries, once lauded for having perfected a miracle of high savings, stable exchange rates and a positive investment climate, now totter beneath large current account deficits, collapsing currencies and bankrupt financial institutions.

The Japanese government, having earlier this year been so sure of the soundness of its economy that it happily inflicted a multi-billion dollar tax increase on consumers, may be considering a plan to shovel it all back out again in the form of a bail-out for incompetent bankers.

Only a few months ago, ecooomists were worried that the world, led by the US economy, was on the brink of an inflationary overheating that would force a fierce tightening of mooetary policy. Today many see prosperity threatened by a vicious spiral of falling prices, a generalised deflation.

Economists will doubtless be rationalising these somersaults by quoting John Maynard Keynes who is said to have rounded on a cynical critic, who accused him of changing tack once too often, with the remark: "When the facts change, I change my mind. What do you do?"

But facts seldom change so quickly as to provide painless validation for 180-degree shifts in intellectual direction. It generally takes a little time, even in today's much vaunted high-technology, globalised world, for light to fade into dark.

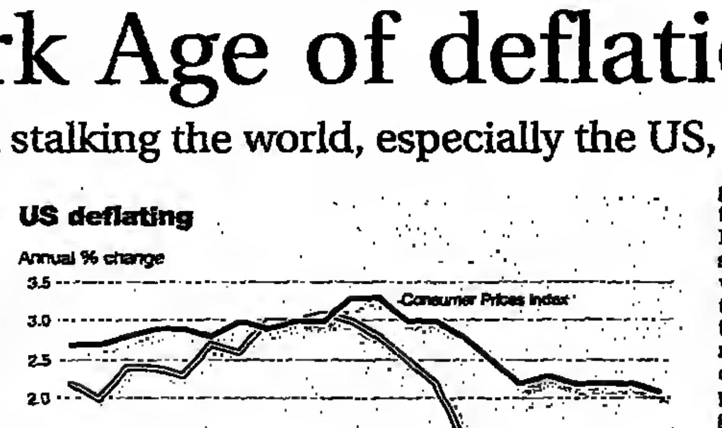
A better explanation for the events of the past few months is that at least some of the assumptions on which earlier judgments were based were flawed.

When the storm eventually blows over, economists and policymakers will doubtless look more closely and dispassionately at the Asian model and ask whether it really is worth emulating. For the time being in that part of the world, damage control is rightly the priority.

The claim that it is deflation that stalks the world, and especially the US, needs to be examined more urgeotly. In its most extreme form, this phenomenon would call for central banks to act immediately to head off the risk by aggressively cutting interest rates.

The argument runs like this. In the years of plenty, much of the growth almost everywhere came from a rapid expansion of investment. Capital flows into the tiger economies built factories and offices that raised capacity by almost as much as it raised output. That was true, not just in east Asia, but even in the un-tiger-like US economy. Business investment as a share of gross domestic product has grown from 9 per cent in 1992 to almost 12 per cent this year.

This rapid US and Asian capital accumulation has been depressing world prices even in these past few years of strong growth. The pressures of globalisation have also forced companies to keep prices down. At the wholesale level, the rate of price increases in the US has been falling steadily throughout the past two years of expansion. In the




first six months of 1997 they fell sharply, as world commodity prices stagnated.

If all this price weakness has been going on while the Asian economy – excluding Japan – has been growing at 8-9 per cent a year and the US at 4 per cent a year, what will happen to global prices if Asian and US growth rates decline to perhaps half that rate or even slower?

Some hold up the spectre of the late 19th century, when the then emerging markets of America, Argentina and Australia joined the trading economy and global commodity prices fell by more than 40 per cent in 30 years. What is to be made of this claim that a sudden grisly turn for the worse has changed immediate prospects from a New Age of inflation-free growth to a Dark Age of deflation?

Some economists argue that the policy framework ansures that such a catastrophe could never happen. David Hale, chief global economist at the Zurich Insurance Group, pointed out to a House of Representatives committee last month that, at the end of the last century, the world was still attached to the gold standard. This limited the room for manoeuvre of policymakers in responding to sharp changes in output and prices. Now monetary policy has much greater freedom to cushion the blow.

But easier monetary policy is not a safeguard against deflation. The Bank of Japan has for more than two years held short-term interest rates to 0.5 per cent; yet for much of the last few years, prices in Japan at the wholesale and retail level have fallen.

However, there are several good reasons for thinking deflation does not pose a serious risk. First, the Asian economies should be able to export their way out of serious crisis thanks to the large depreciations of their currencies in the last few months. The deflationary impact of cheaper imports will thus be partially offset by improving growth prospects in south-east Asia. It was after all, their efforts to hold their currencies to the powerful US dollar that produced much of the problem in the first place.

Another point to nnte is that global high levels of investment may not have raised capacity in the long term by very much. A great deal of the recent surge in capital spending – notably in the US, but, to a lesser extent in Asia – has been in technology: equipment that has a shorter lifespan than the factories and mines that were the hallmark of investment spending in the past. US companies need to invest more just to maintain a given level of capital stock.

But perhaps the most important objection to the deflation argument lies in the strength of the US economy.

The US is still operating at levels of utilisation of both capital and labour that are building an inflationary head of steam. Wage increases are accelerating, and though prices have been weak, that is more obviously attributable to the strong dollar than overcapacity. And even if Asia slumps, the effect will be to remove some of the inflationary froth, not to produce a deflationary collapse.

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# Prospects for partnership

## John Thornhill on an alliance between an American and Russian in the oil industry

Nikolai Bogatchev, a jovial, bearded, former Soviet diplomat, spent much of the 1980s negotiating arms-for-oil swaps in the Middle East. The experience gave him a nose for oil and a taste for business which he was quick to apply when Russia began lurching towards a market economy in the early 1990s.

After mixed success running an oil trading business, Mr Bogatchev realised that better prospects lay upstream. During Russia's haphazard privatisation programme, he was able to acquire a controlling stake in Khanty-Mansiyskneftegazgeologia (KMNNG), an oil exploration company almost as rich in reserves as syllables, which owns oil fields containing up to 3bn barrels of oil.

John Fitzgibbons, a thoughtful, clean-cut American academic-turned-businessman, first came to Russia in the early 1990s to advise the Russian government on its privatisation programme. Enticed by Russia's unique business opportunities, Mr Fitzgibbons helped set up UPC, a private, Delaware-based oil exploration and production company targeted on western Siberia.

By chance the two men met, struck a deal, and have just merged their two companies in what they believe could become a template for how to structure business ventures between Russian and western partners. They hope their joint company, Khanty Mansiysk Oil Company (KMOC), will turn into a fruitful marriage of Russian assets and industrial expertise with western capital and management know-how.

"This is a new type of company that has never existed before in Russia," says Mr Bogatchev. "The interests of both partners have been aligned so that they are exactly the same – except I no longer think of ourselves as partners but the same team."

The new company will be one of Russia's largest independent exploration companies, not yet sucked into the maw of a giant vertically integrated operator. With audited accounts, a clean balance sheet, a clear management structure, and access to cheap international capital, KMOC aims to make an initial Public Offering within 18 months to raise additional investment finance. Longer-term, the founders have ambitions to grow the company into one of Russia's largest oil producers.

"Our objective is to build a model that works and then we can concentrate on making it as big as possible and not vice versa, as is more common in the Russian oil sector," says Mr Fitzgibbons.

In general, foreign investors in the Russian oil sector have had a sorry time to date. Although many of the classic 50:50 joint venture deals struck in the early 1990s have been operational successes, they have invariably turned into financial disappointments. The partners have often fallen out with each other. Local tax authorities have viewed them as "milk cows". The cultural differences between the partners prove too great.

Mr Bogatchev argues that most Russian and foreign companies wishing to work together suffer from the "mermaid" problem: although both sides may be attracted to each other it is difficult to consummate their relationship.

At this point, he tells the story of a fisherman who catches a beautiful mermaid and immediately throws her back into the sea. "Why?" his friend asks. "How?" the fisherman replies.

Mr Bogatchev believes that the joint venture structure has too many inbuilt strains because each partner has different priorities. The foreign partners want ownership of reserves to bolster their balance sheets, the Russians want quick cash. Russian companies do not want to cede control; while their foreign partners are reluctant to "carry" them financially.

Moreover, a joint venture is a static structure which does not have the flexibility to grow. There is always tension about whether each partner should inject new assets into the joint venture or keep them entirely for themselves.

By contrast, UPC and KMNGG have been fused into one company in a complicated cash and stock transaction. Technically, KMNGG has become an 86 per cent subsidiary of UPC, now renamed KMOC, which has just raised $55m (£32.9m) in a private placement to invest in the company.

Gerard de Geer, a Swedish businessman who founded the Moscow-based Brunswick investment bank, a big shareholder in the new company, has become chairman of KMOC and has the deciding vote at all board meetings. The western partners believed this was essential to win the trust of foreign investors. But the management of the company will remain overwhelmingly Russian.

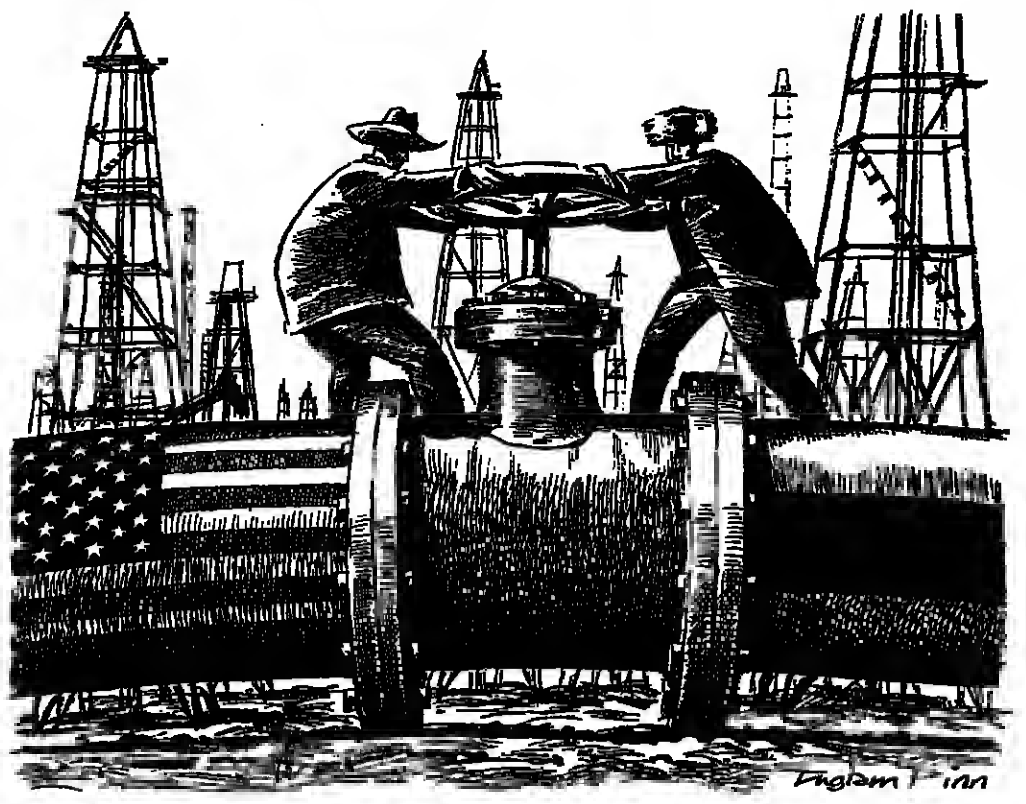
Mr Bogatchev argues that KMNGG always realised it would have to find some means of raising the substantial sums of capital it needed to realise the value of its vast reserves. "We needed money for the company to flourish and it did not matter to me whether this was foreign or Russian," Mr Bogatchev says.

"We want to become a Russian major. We have a good reserve base, we will be aggressive in bidding for new tenders, and we may look to buy assets from other companies. We also now have access to cheaper foreign capital," he adds. "Everybody understands that the efficiency of our company is the most important thing."

The attractions of the deal to UPC are also clear. As one of dozens of geological exploration companies which were entrusted with discovering oil in Soviet times, KMNGG still retains many operating privileges. The company has strong ties with the local administration, favourable tax treatment, and the right to export all its production. It also has much precious data about many of the reserve basins in western Siberia, giving it an advantage when it comes to bidding for licences.

Both sides say they were impressed by the open-mindedness and cultural understanding of the other. Mr Bogatchev says Mr de Geer was an extremely tough negotiator hut has delivered on everything he promised in contrast to some other foreign investors who promised the world but delivered nothing.

Perhaps such a deal could only have been struck by businessmen who were not hidebound by the ways of thinking in the oil industry and had little corporate baggage in tow. It all sounds fine in theory. Now it just has to work in practice.





# No points for loyalty in the working future

## US study advocates versatility and mobility

Have you been loyal to one company for most of your working life? Well more fool you, if you have: you could find yourself unemployable should you ever need to look for another job.

This cheerful news comes from A.T. Kearney, the US-based management consultancy, in its "1998 Outlook on global business, environment and industry trends".

"The one-company, one-industry candidate is passé," it asserts. "Companies will demand that top candidates show experience not only with several employers hut in several industries as well. They want evidence that executives have the ability to operate in varied environments. Exposure to information technology is also a must."

For the sufficiently diversified few, the pickings will be rich, forecasts A.T. Kearney: "Compensation packages will continue to grow fatter, and millions more will be invested in brainpower. Faced with a dearth of good candidates, companies will increase the amount of money, atock options and perks they will use to entice the desired candidates."

Black and/or female? That could be a plus if you plan in 1998 to look for a top university position in the US. "Despite a backlash against affirmative action in some states, a growing number of university and college boards will ask for a diverse candidate slate during the selection process," it says.

Given the tough conditions ahead, it comes as no surprise to hear that next year "more executives will abandon the corporate life to take top-level jobs at not-for-profits". These executives, it seems, "are already financially successful, but are looking for more meaningful work and balance in their lives".

Looking beyond purely personal prospects, A.T. Kearney forecasts that we will see more companies selling their manufacturing operations or shifting them to suppliers. "This strategy increases return on capital and allows companies to concentrate on core competencies such as marketing and product development," it says.

Many companies will "get serious about outsourcing many procurement operations, just as they did with information technology". They will look for outside help to buy products and services such as travel, printing and production materials, A.T. Kearney concludes.

**Diane Summers**

My Secret Weapon John Robinson: time management

# Be ruthless: decide what's important and stick to the plan

*John Robinson, chairman of Smith & Nephew, began his career as a chemical engineer. He joined Smith & Nephew, the international healthcare company, 19 years ago. He became group chief executive in 1990 and chairman this year.*

I learned how to delegate running my diary when I first joined Smith & Nephew. I had a very competent, experienced secretary who trained me in how to let her run my diary. You have to start off with a basic structure that lays down the pattern of formal meetings for the year. Then you need a strong understanding between the two of you about what you are going to do and not going to do. My current secretary has worked with me for seven years. We have a pretty solid understanding. She shapes the thing.

I feel very strongly about not chopping and changing my plans once they have been made. It wastes people's time. If you change your diary, you often disrupt everyone else's. You can cause mayhem.

I have worked very hard on time management. You have to work out what is important. You have to be quite ruthless. One of my managing directors is pressurising me to look around his new plant. It would be interesting, but I have to ask is it a good use of my time? Can I really add any value?

Some of the most successful people running businesses work very controlled hours. But when you run a global business, you cannot confine it to conventional hours. Often the only time you can be in touch with people in other parts of the world is in the evening and weekends. You can easily work 24 hours a day if you don't control it.

I do not travel as much as I used to when I was chief executive. But running a global business, there is no substitute for spending a lot of time travelling. Establishing relationships is time consuming. You cannot do it by telephone. You have to pick up feelings as well as facts.

I use e-mail. I cart the equipment around with me and use it in hotels. But in general I can't be bothered with gadgets. I am interested in concepts, not in car maintenance.

The key issue in this industry is technology. There is no use having the same products as everyone else, when the only way to differentiate ourselves is by selling at a lower cost. I strongly believe that we have to invest in research. I could substantially increase the profits by cutting down the R&D programme but that would harm the business in the long run.

I became convinced of this when I was chief executive of a small engineering and forging business in Sheffield before I joined Smith & Nephew 18 years ago. The engineering industry in the whole of that area suffered from gross underinvestment. A lot of those businesses went downhill.

Biotechnology is changing the face of medical technology. Having a fundamental understanding of the subject is key. It is just not eoough to hire engineers and tell them to come up with new products. I have to know enough and educate myself enough to understand the issues and make judgments.

I spend as much time as I can meeting people such as surgeons, doctors and our own scientists. Ten years ago, we set up a advisory council to give us an independent assessment of the quality of our scientific work.

We recruited Dr Nancy Lane, a Cambridge biologist, as a non executive director. She recruited a panel of world class scientists. As chairman, I am part of that panel. That gives me the opportunity to spend six days a year with some of the most eminent scientists in the field. It is a very valuable process. I started it with apprehension hut now I don't know what I would do without it.

I also spend a lot of time thinking about how to sell the product, focusing on global marketing. My view is that science is something you have to learn academically, but marketing is something you acquire by experience.

I think it is essential to have a technological background if you are running a technology business.

I don't think an accountant could run a technology company. Using the same logic, I don't think I would be a good chief executive of a bank because I wouldn't understand the business.

**Interview by Vanessa Houlder**

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 30.11.97 / Final Prices for Trading on 02.11.97

| ½ hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh | TS use of system price £/MWh |
|---|---|---|---|---|
| 0030 | 14.81 | 10.33 | 10.33 | 0.00 |
| 0100 | 21.27 | 22.50 | 22.59 | 1.50 |
| 0130 | 31.50 | 22.50 | 22.59 | 1.50 |
| 0200 | 30.33 | 22.50 | 22.59 | 1.50 |
| 0230 | 24.35 | 18.51 | 18.61 | 1.50 |
| 0300 | 24.35 | 15.15 | 15.25 | 1.50 |
| 0330 | 24.35 | 12.17 | 12.27 | 1.50 |
| 0400 | 24.35 | 12.17 | 12.27 | 1.50 |
| 0430 | 14.44 | 12.17 | 12.27 | 1.50 |
| 0500 | 14.44 | 12.17 | 12.27 | 1.50 |
| 0530 | 14.13 | 10.29 | 10.29 | 0.00 |
| 0600 | 14.13 | 10.29 | 10.29 | 0.00 |
| 0630 | 14.13 | 10.31 | 10.31 | 0.00 |
| 0700 | 14.13 | 12.32 | 12.41 | 1.50 |
| 0730 | 14.13 | 12.32 | 12.41 | 1.50 |
| 0800 | 14.13 | 12.32 | 12.41 | 1.50 |
| 0830 | 14.13 | 12.32 | 12.41 | 1.50 |
| 0900 | 14.13 | 12.32 | 12.41 | 1.50 |
| 0930 | 14.97 | 12.32 | 12.41 | 1.50 |
| 1000 | 21.73 | 16.28 | 16.38 | 1.50 |
| 1030 | 21.73 | 16.65 | 16.74 | 1.50 |
| 1100 | 21.73 | 21.61 | 21.70 | 1.50 |
| 1130 | 24.84 | 26.44 | 26.54 | 1.50 |
| 1200 | 28.60 | 26.44 | 26.54 | 1.50 |
| 1230 | 28.60 | 21.61 | 21.70 | 1.50 |
| 1300 | 28.60 | 26.44 | 26.54 | 1.50 |
| 1330 | 18.06 | 26.44 | 26.54 | 1.50 |
| 1400 | 15.91 | 10.63 | 10.63 | 0.00 |
| 1430 | 15.91 | 10.33 | 10.33 | 0.00 |
| 1500 | 15.91 | 10.33 | 10.33 | 0.00 |
| 1530 | 15.91 | 10.32 | 10.32 | 0.00 |
| 1600 | 17.85 | 10.31 | 10.31 | 0.00 |
| 1630 | 15.91 | 10.62 | 10.62 | 0.00 |
| 1700 | 31.31 | 30.02 | 30.12 | 1.50 |
| 1730 | 29.94 | 30.02 | 30.12 | 1.50 |
| 1800 | 31.31 | 30.02 | 30.12 | 1.50 |
| 1830 | 31.31 | 25.74 | 25.84 | 1.50 |
| 1900 | 24.79 | 25.74 | 25.84 | 1.50 |
| 1930 | 22.83 | 25.74 | 25.84 | 1.50 |
| 2000 | 22.76 | 25.74 | 25.84 | 1.50 |
| 2030 | 19.95 | 24.93 | 25.02 | 1.50 |
| 2100 | 17.86 | 18.74 | 18.84 | 1.50 |
| 2130 | 19.37 | 18.74 | 18.84 | 1.50 |
| 2200 | 17.85 | 16.65 | 16.74 | 1.50 |
| 2230 | 15.91 | 16.28 | 16.38 | 1.50 |
| 2300 | 16.15 | 16.28 | 16.38 | 1.50 |
| 2330 | 16.15 | 16.38 | 16.38 | 1.50 |
| 2400 | 11.01 | 10.61 | 10.61 | 0.00 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 01.12.97 / Final Prices for Trading on 03.11.97

| ½ hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh | TS use of system price £/MWh |
|---|---|---|---|---|
| 0030 | 15.15 | 10.62 | 10.62 | 0.00 |
| 0100 | 15.15 | 16.28 | 16.42 | 1.26 |
| 0130 | 36.47 | 26.44 | 26.58 | 1.26 |
| 0200 | 36.47 | 26.44 | 26.58 | 1.26 |
| 0230 | 15.16 | 16.28 | 16.42 | 1.26 |
| 0300 | 15.16 | 26.44 | 26.58 | 1.26 |
| 0330 | 15.15 | 26.44 | 26.58 | 1.26 |
| 0400 | 15.15 | 15.90 | 16.03 | 1.26 |
| 0430 | 15.15 | 15.90 | 16.03 | 1.26 |
| 0500 | 15.15 | 10.63 | 10.33 | 0.00 |
| 0530 | 10.52 | 10.46 | 10.46 | 0.00 |
| 0600 | 10.52 | 10.47 | 10.47 | 0.00 |
| 0630 | 13.32 | 14.89 | 14.83 | 1.26 |
| 0700 | 23.34 | 17.71 | 17.84 | 1.26 |
| 0730 | 30.36 | 28.98 | 29.11 | 1.26 |
| 0800 | 31.20 | 30.97 | 31.11 | 1.26 |
| 0830 | 49.80 | 36.66 | 36.80 | 1.26 |
| 0900 | 49.84 | 36.66 | 36.82 | 1.26 |
| 0930 | 58.34 | 58.62 | 58.78 | 1.26 |
| 1000 | 56.36 | 58.63 | 58.78 | 1.26 |
| 1030 | 56.36 | 58.63 | 58.78 | 1.26 |
| 1100 | 49.89 | 36.66 | 36.83 | 1.26 |
| 1130 | 49.90 | 36.66 | 36.83 | 1.26 |
| 1200 | 41.12 | 34.46 | 34.60 | 1.26 |
| 1230 | 41.10 | 34.45 | 34.60 | 1.26 |
| 1300 | 36.91 | 34.45 | 34.59 | 1.26 |
| 1330 | 36.90 | 34.44 | 34.58 | 1.26 |
| 1400 | 36.91 | 34.44 | 34.58 | 1.26 |
| 1430 | 36.90 | 34.44 | 34.58 | 1.26 |
| 1500 | 36.90 | 34.43 | 34.58 | 1.26 |
| 1530 | 37.00 | 34.43 | 34.58 | 1.26 |
| 1600 | 36.18 | 12.10 | 12.10 | 0.00 |
| 1630 | 82.03 | 36.70 | 36.44 | 1.26 |
| 1700 | 149.96 | 64.92 | 68.43 | 1.26 |
| 1730 | 136.62 | 110.11 | 116.05 | 1.26 |
| 1800 | 163.94 | 110.93 | 116.78 | 1.26 |
| 1830 | 86.51 | 66.43 | 69.70 | 1.26 |
| 1900 | 60.83 | 50.58 | 51.58 | 1.26 |
| 1930 | 48.56 | 45.43 | 46.77 | 1.26 |
| 2000 | 45.31 | 31.09 | 31.26 | 1.26 |
| 2030 | 38.12 | 34.44 | 34.58 | 1.26 |
| 2100 | 34.86 | 30.97 | 31.10 | 1.26 |
| 2130 | 31.19 | 30.97 | 31.10 | 1.26 |
| 2200 | 32.63 | 28.98 | 29.11 | 1.26 |
| 2230 | 31.18 | 28.43 | 28.57 | 1.26 |
| 2300 | 23.34 | 16.82 | 16.96 | 1.26 |
| 2330 | 22.41 | 15.40 | 15.54 | 1.26 |
| 2400 | 22.41 | 15.40 | 15.54 | 1.26 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places.



# Plenty to read but not much to learn at the business bookstall

**John Kay**

You arrive early at Heathrow Airport, London. You pass a few minutes in the book shop. Near the entrance there is a stand of books about business. You browse through *The Twelve Pillars of Business Success* and consider buying it. After all, if it did work, it would be great value at £12.99.

You have become part of one of the publishing phenomena of the times. It has not yet reached the heights achieved in the US where "how to" books are regularly found in the bestseller lists. But it has gone far enough to make Heathrow Airport one of the leading centres with a business book shop in the UK.

At Heathrow last week I picked up three of these business "how tos". *The Trust Effect*, by Larry Reynolds (Brealey, 1997); *Managing Transitions*, by William Bridges (Brealey, 1991, 1995) and Ron Sewell's *The Twelve Pillars of Business Success* (Kogan Page, 1996). A total investment of £35.97. The books are no better, or worse, than the genre they represent. But they are typical.

The claims the publishers make for these works are far from modest. *The Twelve Pillars of Business Success* offers a unique plan for achieving extraordinary results from ordinary people.

Armed with this new-found information (this is after reading *Managing Transitions*) managers will look at future changes in a new light, no longer feeling anxious and hopeless, but rather looking for opportunities. And if you fail to harness *The Trust Effect* in order to achieve results, make your team work and drive down costs, someone else will succeed and will drive you out of business. Yet we all know that what these books have to say is as memorable as the faces of the people who sit opposite you in the airport lounge.

This gives you one clue for how to select a business book. You will only remember a face in the lounge if it is unusual, such as someone wearing a patch over their eye. By the same principle, open a page and ask if it contains anything with which you disagree.

In *The Twelve Pillars of Business Success* (p65), for example, Mr Sewell asks: "So, how do you project your organisation's philosophies, values and beliefs to everyone in your organisation?" First, we have to live them in everything we say and do and second, we have to make the time to communicate endlessly on these and related issues. And in *The Trust Effect* (p169), Mr Reynolds asserts: "If you want to build a high trust organisation, you want your people to be competent."

Although their comments may be true, by their very universality the authors tell us very little. They do not represent a new contribution to our knowledge of the theory and practice of management. But nor are they sufficiently specific to enable us to distinguish between right and wrong actions in particular situations.

They supply a middle ground between theory and practice, which meets neither the demands of the first for rigour and generalisability nor the demands of the second for operational effectiveness.

It is like saying that you control a car by applying the right amount of acceleration. True – but it does not tell you how a car works or how to drive it. The curricula of business schools contain a large, and probably increasing, volume of material of this kind. It is created by an insistence that useful knowledge must be practical.

The would-be driver is understandably, if perhaps wrongly, impatient with instruction in the workings of the internal combustion engine. At the same time, there is an opposing pressure that demands that MBA teachers should be more rigorous than driving instructors.

**These books rarely contain anything in the way of data. There is a variety of bogus statistics common in business writing**

These books rarely contain anything in the way of data. There is, however, a particular variety of bogus statistics that is common in business writing: "Writers Stan Davis and Jim Botkin estimate that the world's total knowledge doubles about every seven years." (*The Trust Effect*, p170); "Research shows that only 12 per cent of decisions made in US companies are soundly researched and decided." (*The Twelve Pillars of Business Success*, p157.)

These remarks have an apparent precision, which gives them an air of scientific respectability – our stock of knowledge doubles every seven years, rather than every five or every 10, and it is 12 per cent, rather than a small proportion, of management decisions that are well considered. But how could you ever design a serious project to measure the stock of knowledge, or the proportion of decisions that were soundly researched?

But if there is a shortage of data, there is certainly no shortage of anecdote. All of the books contain many sentences beginning "when x took over as CEO of the ABC corporation, he...".

Nor is there any shortage of opinion. The views of management gurus have a singular authority, but the greatest weight is attached to the opinions of revered business leaders. Jack Welch, chairman of General Electric; Percy Barnevik, chairman of ABB; and Bill Gates, chairman of Microsoft, are particularly celebrated. And even if he and his organisation have moved on, Jan Carlsson of SAS is still much honoured as well.

Every banality they utter is seized like crumbs from the rich man's table.

Poor Mr Welch might properly be cited as co-author of many of the books, so often is he referred to – and entirely admiringly. The only error these titans ever make is sometimes being slow in perceiving the truth. "Give your people every chance to identify with their business. Their enthusiasm is your most valuable asset," Mr Welch believes. (*The Twelve Pillars of Business Success*, p165). True enough, but is it any more credible because Mr Welch thinks it?

But if these books do little good, perhaps they also do little harm. If I have one concern, it is that they are the equivalent of junk food, which fills you up while offering no pleasure and no nutrition.

*The author is the Peter Moores Director of the Saïd Business School at Oxford University and a director of London Economics. This column appears fortnightly.*

# Angling for a bigger catch

## The new chief intends to emphasise the British in BSkyB, says **John Gapper**

As Mark Booth describes the 40cm satellite dish that British Sky Broadcasting will sell next spring to British consumers to receive 200 digital television channels, he holds his hands apart like a fisherman describing his latest catch. "It's about like that," says BSkyB's chief executive, "I tell you what I'll do. I'll photocopy one and send it to you".

It is unusual for the chief executive of e FTSE 100 company to market his product by copying and posting it. Yet 40-year-old Mr Booth, an American who started his pay television career at MTV Networks, has an unusual task. He must reignite the growth of BSkyB in its current form, and prepare the way for the unknown territory of digital broadcasting.

BSkyB's investors have misgivings ebout both. The company's shares have fallen sharply this year as investors have focused on the slowing in subscriber growth, and the huge costs and unknown returns of digital. The company's pre-tax profits are expected to dip slightly this year as e result of a £200m investment in digital technology, including more satellite capacity.

Mr Booth also has a hard act to follow in Sam Chisholm, the bard-driving New Zealander wbo turned BSkyB into one of the world's most successful pay television outfits by signing up crucial sports and film rights. He persuaded 27 per cent of UK bomes to take the service primarily by ensuring that Sky Sports was the only network to carry live Premier League football.

In the young world of pay television, Mr Booth has about as much experience as possible. As well as MTV in America and Europe, he has worked for Rupert Murdoch et Foxtel in Australia, and JSkyB in Japan. Compared with Mr Chisholm, he cuts a quieter, more reflective figure, despite a reputation for managing tonghly and briskly when required.

Gerry Robinson, BSkyB's chairman, says Mr Booth works differently from the "intuitive" Mr Chisholm, and has already shown a propensity to question and reassess fundamental aspects of its strategy. "They are really very opposite characters, and I do not think that is a bad thing. Mark's approach tends to be more logical and thought-through," he says.

There are signs that BSkyB is approaching the limits of Mr Chisholm's epproach. Growth in subscribers who sign up to have e satellite dish on the side of their homes is slowing, while cable companies that carry its channels are becoming increasingly rebellious. Several are trying to sell subscribers a handful of channels, rather than the Sky Multichannels package.

> "We haven't talked to at least half the population of this country for many years," he says

Mr Chisholm's crucial success was to ensure that Sky subscribers had to "buy through" the 30 channels of the Multichannel package to gain the premium film and sports channels. Ths company did not have to persuade consumers of the virtues of its basic service. Indeed, BSkyB's recent marketing has emphasised its sports content to the exclusion of other channels.

For Mr Booth, that means BSkyB has been missing a trick. He emphasises that sport and films will remain a crucial element but says there are other aspects of its service that have almost been ignored. "I think it is fair to say that we haven't talked to at least half the population of this country for many years," be says.

One of his first acts on taking over as chief executive was to commission some market research into bow Sky was perceived. The answer was thet it was regarded both as expensive, and as offering a service of limited appeal to anyone who was not sports-mad. Its Sky One entertainment channel was mentioned by only 13 per cent of people asked to name channels.

"We have not talked to people who are non-sports fans, or even more specifically non-football fans. I don't think it is surprising thet the growth rate has been slowing down for the past couple of years," be says. "The most important thing is to expand our penetration rate, rather than focus on getting as much money out of our current subscribers as possible."

For Mr Booth, the least charted territory is female. "If you are a mother concerned about your kids wetching too much television, some would argue that getting Sky is not a benefit – it is just more of the same. But in reality we have networks that are terrific for kids. There are some hidden jewels in our vaults, but people won't hny them unless they know," he says.

BSkyB's research indicates few people realise they can get 30 channels for £11.99 a month, altbough he acknowledges it has partly brought this problem on itself by aggressive selling of premium packages.

His target is to emulate US penetration rates for cable television, which have risen from ebout 30 per cent in urban areas to 70 per cent. Yet it is unlikely that this can be achisved without changes to BSkyB's mix of programming. The lack of clear identity for its Sky One channel is partly a prodoct of the small sum invested in UK programming, compared with the BBC or ITV.

While the ITV network spends £800m a year on programmes, BSkyB spent only £40m on Sky One last year, of which £12m went on original programming. Under Elissbeth Murdoch, BSkyB general manager, there are plans to raise this amount. Mr Booth wants to invest in British made-for-television films with budgets of between £1m and £5m.

"When you watch Sky One, it tells yon we have gone around the world to acquire programmes but it does not say we are British, or we know who you are," says Mr Booth. But there will be limits to BSkyB's investment, given its rise in costs due to digital. "The reality is that Sky One is still a modest oetwork, and we're going to have to do this incrementally," he says.

The investment is at least partly defensive. Until now, British consumers have only been able to receive multi-channel television with cable or satellite. From next sutumn, a 30-channel digital service will be offered on the terrestrial spectrum. About 15 of the channels – including Sky Sports and Sky One – will be offered to snbscribers by the British Digital Broadcasting group.

BDB will offer a service more distinctively Britisb than BSkyB's, although it will have far less capacity. Mr Booth must hope that the sheer bandwidth available to BSkyB – for example, the ability to devote 60 channels to sbowing pay-per-view films at staggered start times – will be enough to outgun e BDB service beavily marketed to middle England.

"We seem BDB encumbered by having the cost of digital, but delivering analogue capacity," says Mr Booth. He argues tbat BSkyB's satellite pletform will for the first time gain its own appeal rather than simply being a means of seeing Sky Channels. The delivery method will matter, because digital satellite will offer film and interactive services unavailable elsewhere.

He is introducing an ioternal split between production and broadcasting, so that managers of channels such as Sky One concentrate on acquiring rights and building brands, while those in charge of the Sky satellite platform concentrate on attracting subscribers and advertisers. "The skill sets are very different, and they have been blended in tbe past," be says.

Yet Mr Booth sees digital as providing more tban capacity to deliver cboice. He believes it can use its smaller 40cm dish to renew its image as a high-tecb, innovative and, above all, British company. "There is a small percentage of people who will not put a dish on their bouse no matter what we do. That is OK. There are enough households out there that will."

Mark Booth, chief executive

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Personal View · **Chris Powell**

# How can we curb political big spenders?

## Hard to close all avenues in cutting campaign advertising

If the Conservative party had not spent so mucb on advertising in the last general election, most people would probably never have heard of Bernie Ecclestone, the head of Formula One who donated £1m to the Labour party which wants to exempt the sport from a ban on tobacco sponsorship.

In May 1996, a year before the election, it was revealed that tbe then government planned to spend £11m on the election campaign (in the event it spent £13m). Labour, wbich had budgeted on less than £2m, was forced to revise its planned spending upwards.

Spending at these unprecedented levels means new sources of funds have to be found. This leads to the complications of donors and their relations with government. Such drawn-out electoral battles irritate and bore the voters in equal measure.

How straightforward would it be to limit political spending on advertising? It is already tightly limited by law, but, bizarrely, only in the constituencies. There is no limit nationally.

It would be easy to limit what political parties spend on advertising during election campaigns, but should the limitation be extended to a period before the election proper starts? The parties see the run-up to the electioo as more fertile territory for advertising than the official campaign period. About two-thirds of the Conservative party's advertising funds in 1996-97 were spent before tbe election was declared.

Since many of the real battles are fought in the year before e formal campaign, there would have to be some upper limit on spending during this period to create a relatively level playing field. This would have to come in tbe form of an annual limit on spending for political parties. If the restrictions were merely on advertising, then expenditure would simply shift to other forms of communications, most likely direct mail. As with constituency limits, national limits would need to cover all spending.

Even such restrictions would not achieve all that much, as donors could merely be transferred to front organisations and pressure groups that would promote the aims of the parties. But introducing restrictions on legitimate pressure groups would be democratically problematical since they are entitled to seek the support of public opinion through advertising. Upper limits on spend by any one group would just encourage a multiplicity of organisations spending in roughly the same cause.

All political advertising other than by the parties could feasibly be banned during the election period, but that would require some defioition of what is political, as well as some way of stopping pressure groups setting up political parties just to get round the prohibition.

These problems are remarkably similar to those encountered in trying to stamp out tobacco promotion. The ingenuity of the marketers knows no bounds; if one avenue is closed another will be found. How about political parties sponsoring Formula One racing?

*The author is chief executive of BMP DDB.*

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# Ericsson calling James Bond

## Mobile phone company to launch campaign with help of 007

This week, a $30m-plus (£17.7m) global advertising and marketing campaign for Ericsson, the Swedish mobile phone company, will break, simultaneously, in 60 countries. The campaign, which promotes the latest Bond movie *Tomorrow Never Dies* – on general release in two weeks – marks one of the biggest "product placement deals" struck by the film industry.

Much of the advertising – headlined "Ericsson Made/Bond Approved" – will show Piers Brosnan, who plays James Bond, clutching an Ericsson mobile phone to his ear, rather than the traditional hand-gun. The deal revolves around a specially designed "concept phone" created by Ericsson for ths film: the phone can steer a car, break open a safe, scan fingerprints, takс photographs and even stun baddies. It also makes the odd phone call.

Ericsson hopes that its association with the Bond industry will help sales. Next year, it plans to launch a phone with fax and modem technology.

UIP, the film distributor, says *Tomorrow Never Dies* will do even better than *GoldenEye*, the last Bond film, which surpassed expectations hy grossing $350m at the box office.

The product-placement deal was masterminded by Young & Rubicam, the US-owned ad agency which numbers both Ericsson and UIP among its worldwide clients.

In the middle of last year, Y & R was asked by UIP to find a company whose product would be appropriate for the Bond storyline and which would be willing to help fund the worldwide pnblicity campaign. The hand-held concept phone, which continues the Bond love affair with hi-tech products, was specifically written into the script once the Ericsson deal was finalised.

While the link-up gives UIP a hefty injection of marketing money to help promote its latest release, Ericsson itself gains a valnable platform on which to market its products and hammer homs its name in a crowded marketplace.

According to Ed Sharp, worldwide account managing director for Y & R, the Ericsson name is "enormous" in a couple of the film's car-chase sequences. But, he says, the product placement stops short of being either repetitive or too intrusive. Other manufacturers plugged in the film include Avis car rentals, Smirnoff Vodka and Omega watches, with which Brosnan has a private deal. In previous films, 007 has worn a custom-made Rolex with the capacity to slit throats.

Mr Sharp says: "It's probably fair to say that until now, Ericsson has had a slightly anonymous feel about it, despite being one of the world's top three mobile communications giants. We believe the link-up with Bond, whose appeal to film audiences is virtually unrivalled in the contemporary cinema field, will make Ericsson big, famous and sexy across all its key markets."

**Virginia Matthews**

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**Tim Jackson** · On the Web

# Pirates expelled from domains

It all began witb Josb Quittner, the US technology journalist who wrote a magazine atory abont corporate America's inattention to the importance of domain names on the internet. In a perfect illustration of his point, Quittner registered the domain name *mcdonalds.com* after the hamburger chain of the same name expressed no interest in the internet. When McDonalds later came to its senses, Quittner asked it to make a donation to charity in return for use of the domain name that be had registered. During the past year or so, Quittner's lead has been followed by a mini-industry of pirates, trying to make money by registering domains incorporating the names of prominent businesses and then offering those domains for sale to the highest bidder.

Two factors created this piracy industry. One was the initial ignorance of the internet inside blue-chip companies. The other factor behind the piracy was the lack of case law. Corporate ignorance of the internet is being speedily corrected. The legal issne is being resolved swiftly too.

There have already been several cases in the US in which the courts have taken a dim view of defendants who registered domains with no apparent purpose other than to sell them to the owner of a similar trademark. But outside the US, the issue has been cloudier.

Lacking ths doctrine of trademark "dilution", plaintiffs have often had to show either that the use of the domain name wonld have created confusion or that its owners intended to "pass off" their products or services as those of the trademark owner.

Last Friday, however, a judge st the High Court in London handed down e judgment in favour of five well-known companies – British Telecommunications, Marks and Spencer, Ladbrokes, J. Sainsbury and Virgin Enterprises – which had sued two businessmen who had registered a list of provocative domain names in the US.

Even though most of the registered domain names had never been put to use, and ths defendants had never published web pages improperly claiming any links to ths owners of the trademarks, the judge nevertheless handed down a speedy summary judgment in favour of the plaintiffs, with an order for more than $100,000 (£60,000) of costs.

The result is clear. Now that the likelihood of successfully extorting money from trademark owners seems so low, domain-name piracy is unlikely to be worth the candle.

It may be tempting to regret the growing professionalisation of the internet of which this is a symptom. The Wild West days in whicb the internet as a whole was an unregulated frontier, and people with more initiative than principles could make quick fortunes, are ending.

Bnt the confusion over domain names is unresolved. Even as the courts clarify their view of the matter, a new set of global domains are set to appear, using such suffixes as *.store*, *.firm*, *.info* and so on.

The new GTLDs, as they are called, will open up new legal fronts for companies to fight on, as most large businesses will find themselves fitting two or more categories, and wanting to control multiple domain names.

Cases in future are more likely to be between two businesses, eacb of which owns a trademark. Although the new GTLD proposals have been accompanied by an interesting idea for an online dispute resolution process – a fascinating precedent in the high-speed creation of an international court – the disputes are certain to be expensive and messy unless a clear enforcement procedure is in place.

"You'll bave to go to where the defendants are, and sue in the local courts there," says Dinah Missen, a partner at Harbottle & Lewis who represented one of the plaintiffs in Friday's case.

Even though the courts may have put the trademark pirates out of business, the issue of domain names will continue to offer rich pickings for lawyers for many years to come.

*tim.jackson@pobox.com*

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## BUSINESS EDUCATION

# Mastering market methods

## The auction for course places has gone high-tech, writes Della Bradshaw

Arbitrage and secondary markets are usually associated with the financial sector. But at the Wharton school at the university of Pennsylvania, students are mastering their principles to "buy" courses.

The problem for all business schools is how to allocate places on the most popular courses, which are often oversubscribed. Wharton, like others, introduced a bidding system some time ago, in which students are given points to buy courses. But this year the bidding is online, over Wharton's computer network.

Each semester every student is given 1,000 points which can be added to points accrued previously. (There are two semesters a year.) They then place bids for the four or five classes they want to study on their chosen courses' web site. Places are allocated to the highest bidders.

Then the fun begins. Allocated places can be sold on for a points profit. "Some speculative entrepreneurs buy courses they don't want in the first round in the hope that the price goes up," says Gerry McCartney, chief information officer at Wharton.

There are 10 bidding rounds with 1,500 students concluding more than 7,000 transactions in total. Mr McCartney points out that most elective courses – 86 per cent in this autumn's bidding round – have spare places: only the top 14 per cent have competition.

The system has obvious advantages for the academic services department, says Jasja Desmedt, a student on the Lauder MBA programme at Wharton. "They get instant information on which courses are the most popular."

At the moment, say insiders, the most popular course is on negotiations: at its peak, it was changing hands for 4,800 points.

This free market system has also been adopted by the career development department to enable students to bid over the network for interview slots with potential employers. Again each student is given 1,000 points and can bid for as many, or as few, interview slots as they like.

The result has been a huge saving in time, especially as many students can bid from their laptops in their apartments, says Kurt Didier, a second year MBA student. "It makes the process of getting the interview much easier. You can do it all from your computer which frees up time to concentrate on other things when you are on campus."

Popular as it is, the career development system will soon be upgraded to enable participants to buy and sell interview slots to the same extent as they can courses, says Mr McCartney. "The more rounds there are to buy and sell, the fairer the system is."

The bidding system is just one element of the computer network set up at Wharton to enable students to get more relevant information. The latest system enables them to set up their laptops to automatically receive only information relevant to them. The next version of the software, Spike 4, code-named "the voyage home" will enable all 65,000 Wharton alumni to access data from the school. As Mr Didier puts it: "From your application to death you will be able to do everything online."


## Wharton manages to cash in on data

Financial data is the bread and butter of business school research. Every US business school worth its salt is licenced to use financial information – company accounts, say, or closing share prices – published by outside agencies. But some schools manage the data better than others.

At Wharton, the information technology team is selling its expertise on to other business schools. Two, Stanford university and the University of Southern California, have already signed up to access the managed data over the internet from Wharton's Philadelphia site. (They already have licences with the data supply companies to use the raw data.)

A further eight or nine business schools are looking at the software.

Thomas Gerrity, dean of Wharton, believes such partnerships are the future for business schools that want to stay ahead of the pack. The relationships are similar to those between Harvard and its customers for case studies, says Gerry McCartney, Wharton's chief information officer.

"We all buy cases from Harvard. We don't feel we need to write our own: they're the best at it. We'd like to be seen as specialists in research computing."

The big issue, says Mr McCartney, is that many schools simply do not have the resources to manage the data the way Wharton does: it has three IT team members working full-time on the project.

Although Wharton is presenting the data to partner schools in the same way as it is to its own faculty, it will retain an advantage, according to Mr McCartney. "Wharton will always have a home advantage. All the people are here and the machines are here: this is where the work is done."

## NEWS FROM CAMPUS

### 125 and still in business

Groupe ESC Lyon, one of France's leading business schools and one of the oldest in Europe, is celebrating the 125th anniversary of its founding in 1872 tomorrow.

Groupe ESC Lyon is affiliated to the Lyon Chamber of Commerce and has strong links with European industry. It runs both a full-time and part-time MBA programme.

*Groupe ESC Lyon: France, 4 78 33 78 00*

### Immersion pays off

Following its successful immersion programme in manufacturing, Cornell university's Johnson graduate school of management is to introduce an immersion programme in brand management from next spring.

The immersion scheme means students on the MBA programme spend a semester (the equivalent of five ordinary courses) studying one topic. The new programme will start by looking at the production and manufacturing of brand products.

*Cornell: www.gsm.cornell.edu/cso/*

### Emu planning for companies

Companies perplexed about how to deal with European monetary union can take advantage of a consultancy project run by Iese, the international graduate school of management at the university of Navarra, in Barcelona.

Selected participants from the school's MBA programme are spending three months under the watchful eyes of their professors running the Euro course and then working with companies to develop a plan for them. Iese believes non-European companies are most likely to be caught out by the introduction of the Euro in 1999.

*Iese: www.iese.es/*

### 3i backs Insead venturelab

UK Venture capital group 3i has got together with Insead, in Fontainebleau, to launch a permanent centre to study entrepreneurship. 3i will be providing know-how as well as funding to the tune of £1.5m over three years.

The 3i venturelab will investigate how basic skills, attitudes and behaviour towards entrepreneurship can be better understood and will distribute regular pan-European research reports on related subjects. The first report will be published in March.

The 3i venturelab will be based at Insead and will incorporate the entrepreneurship faculty, led by Daniel Muzyka, IAF professor of entrepreneurship.

*Insead: www.insead.fr*

### Project funding

Two second year MBA students at London business school, Mike Klein and Matthias Uebel, have won an £8,000 grant from recruitment consultants Taylor Bennett to carry out a four-month research project. They will examine how well-run internal communications can generate competitive advantage.

*LBS:www.lbs.ac.uk*

Information for News from Campus should be sent to
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# Treasures at the end of an MBA course

An MBA degree can increase your salary by 21 per cent in real terms, according to the latest salary survey conducted by the Association of MBAs of its UK members. And the increase is rising year on year.

For those who graduated in 1995 the percentage increase – measured by comparing members' salaries on beginning their MBA courses and on completing them – was 13 per cent (adjusted for inflation). In 1993, at the depth of the recession, the equivalent figure was nine per cent – still ahead of the increase in average earnings.

Graduates from programmes accredited by the Association of MBAs now earn an average of £53,700, according to the survey. Six per cent of respondents earned £100,000 or more and the mean salary for women was £42,400 compared to £56,000 for men. The respondents range from members who graduated in 1997 to others who graduated more than 30 years ago.

The extent of the salary increases demonstrated in the 1997 survey bear a direct relation to the type of course studied, says Robert Owen, manager for accreditation services at the Association of MBAs. Salary increases tend to be greater for those those who studied full-time than for those who studied part-time. Salaries for those who studied through distance learning were lowest.

More than 45 per cent of the respondents who graduated in 1997 completed distance learning MBAs. This proportion is decreasing: almost 60 per cent of the respondents who graduated in 1995 used distance learning, according to this latest biennial survey.

The biggest growth in programme type for those who graduated in 1997 has been in part-time courses. Some 37 per cent of 1997's graduates studied part-time, with just 15 per cent studying full-time. Only about 20 per cent of 1995 graduates studied part-time, the same number who studied full-time.

There is little evidence that MBAs change their profession on graduation, say the authors of the survey. The one exception to this is the well-established link between MBAs and management consultancy. Graduates also tend to move to smaller organisations at a more senior level.

The survey was conducted among all members of the Association of MBAs now resident in the UK. Most of them went to UK business schools although about 75 of the 1,591 respondents went to US or European schools.

**DB**

## BUSINESS TRAVEL

## Travel Update · Roger Bray

### Service on net

The rise of the internet need not mean the end of personal service, says IBM. David Dingley, IBM's solutions brand manager, predicts that before long consumers will routinely make simultaneous voice and visual contact with travel reservations staff via PC screens. The technology exists now, he says, but is not yet widely implemented. He estimates that about $1bn-worth (£500m) of travel transactions will have been conducted on the internet this year. The amount of travel-related information on the web has multiplied fivefold since March 1996, he says.

### Faster Eurostar

Train travel between London and Germany will be quicker from mid-December. Completion of a high-speed line between the French border and Brussels will cut the Eurostar journey time to the Belgian capital by 20 minutes to just 2hr 40 min. The introduction of connecting Thalys trains will reduce the journey time between London and Cologne, for example, by 45 minutes, to less than five-and-a-half hours.

### Net for Sol Melia

Spain's Sol Melia hotel group plans to offer internet access in all its rooms by the turn of the century. Meanwhile, it has installed interactive television at 22 Spanish city hotels, enabling conference organisers to send delegates messages and allowing guests to check their bills at any time.

### Popular China

China will overtake France and the US as number one destination for business and leisure travel by 2020, the World Tourism Organisation predicts. In 1990 the country ranked only 12th. Last year it had risen to sixth, attracting just under 23m visitors and still lagging behind Spain, Italy and the UK. But by 2020, it will be pulling in about 137m visitors.

### Mideast Marriott

Marriott is to manage a hotel exclusively for Moslims. The 150-room property will open in 1999 in Medina, Saudi Arabia. Non-Moslims may visit but not stay overnight. The company will also manage two other hotels in the Middle East, both scheduled to open the following year. They are the 355-room Mirage City in Cairo and the 292-room Abu Dhabi Marriott. The former will be on the outskirts of suburban Heliopolis and will be part of a complex including an 18-hole golf course. The latter, which will have a health club, outdoor pool and tennis courts, will be in the heart of Abu Dhabi's business district.

### Danish air taxes

Denmark is to impose a DKr75 ($11) tax on domestic air fares from January 1. Airlines are up in arms, complaining that Danish railways not only escape the tax but get subsidies. The country's international departure tax will increase on the same date – from DKr65 to DKr75.

### New hotel in KL

Ritz-Carlton is due to open a five-star hotel today in Kuala Lumpur, the Malaysian capital. The 248-room development, which will include a fitness centre, is on the west side of the Golden Triangle on Jalan Imbi, where many large corporations have their offices, and is next to the smart Lot 10 shopping complex.

Likely weather in the leading business centres

| | Mon | Tue | Wed | Thur | Fri |
|---|---|---|---|---|---|
| Tokyo | 13 | 11 | 9 | 10 | 11 |
| Hong Kong | 21 | 17 | 21 | 22 | 21 |
| London | 7 | 5 | 6 | 7 | 7 |
| Frankfurt | 4 | 2 | 0 | 1 | 1 |
| New York | 6 | 7 | 8 | 7 | 8 |
| L. Angeles | 20 | 19 | 20 | 20 | 22 |
| Milan | 12 | 10 | 7 | 8 | 9 |
| Paris | 7 | 4 | 3 | 4 | 4 |
| Zurich | 5 | 2 | 0 | 0 | 1 |

Information supplied by Meteo Consult of the Netherlands
Maximum temperatures in Celsius



# Do a little work between skiing

For the harried executive, the arrival of the ski season can be frustrating. The siren song of the slopes is seductive but pressure of work compels resistance. Getting away for a week looks impossible. Even a weekend means taking most of Friday and Monday out of the office.

But a business trip may bring you close to the mountains. Here is a guide to the resorts closest to the main commercial centres.

The most convenient resort is Vancouver's Grouse Mountain. It may offer somewhat limited challenges, but it is a 15-minute, C$20 (US$14/£8) taxi ride from town and most of the slopes are floodlit until 10pm. You do not even need to take cumbersome equipment with you. An entire package – skis, snowboards, boots, jackets and pants can all be rented on the spot.

Slower roads make it hard for European cities to compete but there are several resorts within one-and-a-half to two hours of cities. Isola 2000 may not be pretty and its skiing is not in the premier league, but, while it can take longer in heavy traffic on a Sunday evening, it is only 90 minutes from Nice.

Skiers on business to Airbus Industrie in Toulouse should remember the smart Spanish Pyrennean resort of Baqueira-Beret is under two hours away. And the Italian resorts of the often underrated Milky Way are only about two hours from Turin.

If you have a spare afternoon in Sofia, Bulgaria's capital, Vitosha is only about 12 miles away, though it can be crowded at weekends and the skiing is somewhat limited.

Mount Parnassus is within reasonable distance of Athens – though it is probably too far for a day trip. It might take some of the sting out of a trip to the former Soviet republic of Georgia to know that the resort of Gudauri in Georgia, which offers low-priced heli-skiing, is only about two-and-a-half hours from the capital, Tblisi.

Farther afield, Japan's latest bullet train will get you from Tokyo to Nagano, the forthcoming Winter Olympics centre, in 90 minutes. From there to the slopes of Shiga Kogen is another 45 minutes by rail. The resort is open from early December to early May.

You can rent gear and ski indoors all year on a 490-metre long run, covered with artificial snow, at the SSAWS Skidome (the first four letters stand for spring, summer, autumn and winter).

It is open until 10pm and is only 30 minutes by train from Tokyo. An adult two-hour ticket costs Y5,900 ($48/£28).

A trip to Geneva offers Europe's best chance of sloping off for the day. Megève is only one-and-a-half hours by road. It is a delightful resort, founded on old French money, with excellent places to eat, but is sometimes forgotten by those seeking adrenalin pumping steeps and vast mileage. It is a little too low to be certain of good snow, but its slopes provide the perfect warm-up for knees that have been tucked under desks too long.

Flaine and Chamonix are roughly the same distance, the former purpose-built and somewhat austere looking but with terrain to suit most standards, the latter deep in a sometimes gloomy valley but with raw, exciting terrain at Argentière.

The US offers numerous opportunities for a crafty escape. In the north-east, Killington is 158 miles, or less than three hours' drive, from Boston. Mount Snow is four hours from Manhattan or 90 minutes from Albany.

The world's best night skiing is at Keystone, about two hours west of Denver. Roughly one-third of its runs are floodlit and can be covered and topped up with artificial snow. Slopes are open from mid-November to mid-April and they close at 9pm – early enough to get back to town for a sound night's sleep.

Breckenridge, Copper Mountain and Arapahoe Basin are all about the same distance from the city, but Denver's local hill is Winter Park, just 67 miles away. Even allowing for Colorado's modest Interstate highway speed limits, you can be there in about one-and-a-half hours. It opens a large snow bowl this season.

The biggest jackpot awaits those sent to Salt Lake City, Utah. Slip away on a day of fresh powder and sunshine and, even allowing time to park your car, you can be stepping into your bindings in less than an hour.

The choice of resorts includes the former mining town of Park City, Solitude and the groomed trails of Deer Valley. But the best for advanced skiers are Snowbird, with its magnificent, long, steep pitches, and Alta, its smaller, less sophisticated, but equally challenging neighbour.

But ski areas in the American west can be very high and altitude sickness a problem. Work yourself in gradually.

Don't try mogul hopping at 10,000 ft the moment you abandon the laptop even if you are in great shape.

And remember that your company's travel insurance is unlikely to cover you on the mountains.

**Roger Bray**


# SAP signs desktop deal with Amadeus

SAP, the world's leading supplier of "enterprise resource planning" software, is preparing to bring travel booking and management to employees' desktops.

It has signed an agreement with Amadeus, one of the world's top two airline computer reservations companies, to build a system allowing SAP users to book flights and hotels from their desks.

The booking facility will be part of a larger system that will bind the management of a company's travel purchasing closer to its financial processes. It is intended that the traveller will only be able to book seats on flights that fall within corporate travel policy, for instance restricting flights to airlines with which the company has preferred supplier agreements.

The information accumulated from the bookings will help companies to make better deals with travel suppliers in return for volume or market-share commitments.

The SAP system will also advise companies how best to spread their spending between preferred suppliers to maximise rebates. Information will flow through to SAP's expense management system, allowing expense claim forms to be generated automatically (for example by taking information from a credit or charge card).

SAP, which has grown rapidly over the past five years, is now the technological heart of many multinational companies, which will only introduce systems that are compatible with it. The new system will also benefit from being presented in the usual SAP format.

All these functions are available in varying forms from an assortment of business travel agents, computer reservation systems and "travel technology" suppliers. What differentiates this new agreement is that information will flow through to all parts of the SAP R/3 system, which tracks payroll, human resources, manufacturing, purchasing and accounting data.

"We had been holding off investing in travel automation until something did appear for the SAP environment," says Gus Holweger, California-based travel manager for electronic design developer Synopsis.

However, Mr Holweger is not happy that SAP has aligned itself – for the moment at least – to just one computer reservation system, which is used by less than a third of all travel agencies.

"Typically, travel purchasing has been a separate function from other purchasing procedures within a corporation," says Elaine White, president of The Global Group, a travel technology consultancy.

"Companies that use SAP will now find it easier and more efficient to move to electronic travel purchasing because the problems of integration will be eliminated. However we have not yet seen any products, nor have we heard a full strategic breakdown of how the products will be brought to market."

Amadeus claims SAP's ability to trace costs through its auditing system will encourage companies to regard travel less suspiciously.

"By evaluating the returns on their dollars, companies might now look at travel as an investment rather than an expense," says Jim Davidson, sales and marketing chief of System One, Amadeus's US marketing arm.

**Amon Cohen**

### CORRECTION

### David Witham

David Witham, vice-president of international hotel and car marketing, is employed by Carlson Wagonlit Travel and not American Express, as stated in The Business of Travel survey on November 20.

# OPENINGS

**PARIS**
The Opéra's Christmas show is *The Merry Widow*, starring Karita Mattila as Hanna Glawari and Bo Skovhus as Count Danilo. It opens tonight at the Palais Garnier and runs till December 31.

**VIENNA**
An exhibition comparing the work of Pieter Bruegel the Elder with the paintings of his sons, Jan Bruegel the Elder and Pieter Bruegel the Younger, opens at the Kunsthistorische Museum on Sunday.

**MILAN**
The new season at La Scala opens on Sunday with *Macbeth*, conducted by Riccardo Muti, staged by Graham Vick and designed by Maria Bjornson. Renato Bruson and Maria Guleghina are the Macbeths and Roberto Alagna (above) sings Macduff. The production runs with changing casts till January 2.

**NEW YORK**
Welsh baritone Bryn Terfel makes his New York Philharmonic debut on Thursday at Avery Fisher Hall, singing the title role in Mendelssohn's *Elijah*. Kurt Masur (below right) conducts, and there are further performances on Saturday and next Tuesday.

**BERNE**
The Kunstmuseum spotlights the work of Lyonel Feininger, Alexei von Jawlensky, Wassily Kandinsky and Paul Klee in an exhibition opening on Friday. This is the first show to plot the artistic dialogues between the *The Blue Four*. It also explores the influence of Galka Scheyer, who founded the group in Weimar in 1924 and championed their cause among wealthy US collectors.

**ROTTERDAM**
The Boijmans Van Beuningen Museum is focusing on a less well-known aspect of Max Ernst's oeuvre with an exhibition of more than 60 sculptures. Ernst regarded his sculptures as humorously incidental to his other work, which may account for their greater formal freedom compared to his surrealist paintings. The show opens on Saturday and runs till early March.

**PRAGUE**
Prague celebrates the music of Bohuslav Martinu in a series of concerts starting on Sunday at the Liechtenstein Palace. The final programme, at the Rudolfinum on December 16 and 19, is conducted by Sir Charles Mackerras.

**AMSTERDAM**
Joan Rodgers and Rosemary Joshua lead the nuns who mount the scaffold in Robert Carsen's new production of Poulenc's *Dialogues des Carmelites*. It opens at the Muziektheater on Thursday and runs till December 30.

**LONDON**
George Cole returns to the London stage this week in *Heritage*, a new play by Stephen Churchett, whose first play, *Tom and Clem*, opened this spring in the West End. The production opens tomorrow at the Hampstead Theatre; Mark Rayment directs; the cast also includes Gwen Taylor and Tim Pigott-Smith. Alex Jennings (left) is London's latest *Hamlet*, opening on Thursday at the Barbican. The modern-dress production, directed by Matthew Warchus, has extensive cuts which delete the political dimension of the play, and has won, in Stratford-upon-Avon, both high praise and dismissive reactions.

'Slowly Turning Narrative', 1992: a video/sound installation made by Bill Viola

# The universal in the everyday

## Lynn MacRitchie on the timeless video images of Bill Viola

A great mirrored screen, mounted on a pole, revolves inches from one's face, its glittering bulk nearly filling a darkened room. Video images slither from its silvery surface, growing ever larger as they spread over the surrounding walls – fire and smoke, figures riding a carousel, a landscape, a wedding party. A man's face appears: a voice intones "The one who watches, the one who cries, the one who judges..."

The dark outlines of the watching figures interrupt the flowing colours, their reflected bodies becoming part of the whirl of images on the screen: there are no mere spectators at this show. The exhibition of Bill Viola's video installations at the Los Angeles County Museum of Art plunges the viewer straight into the heart of Viola's world, a dizzying maze of sound and light, where the most fundamental of life's experiences – meeting and parting, birth, childhood and death – become the subjects of a glowing pageant of electronic set-pieces which claim for video the status of monumental art.

Viola has been working with video for the past 25 years. In a career remarkable for its singleness of purpose, he has managed not to be sidetracked by the use of technology for technology's sake, but has rather developed video installation as a means of exploring aspects of human experience in a direct and simple way.

Thus in "The Stopping Mind", 1991, the viewer is surrounded by screens on four sides. Random images shot with a hand-held camera appear, landscapes and day and night scenes lurching about, the ambient sound a threatening roar. Suddenly, the screens freeze: time stops. From the silence, a voice begins to whisper, describing the loss of bodily sensation in a black space. Just as the listener is attuning to this, the screens burst in to motion again, the voice drowned in random sound.

The concept is complex – "how can we be and think at the same time?" in Viola's own words – but its execution could not be more direct: in the metaphor of the suddenly-stilled video screen, the constant attempt to make sense of the random nature of experience is made a vivid reality rather than a tantalising abstraction.

For all its technical complexity, a profound simplicity of purpose is the key to Viola's work, and also the key to its development. Earlier, pieces often included actual objects. "The Room for St John of the Cross", 1983, has a re-creation of the saint's cell, as well as the hallucinatory projection of a mountain range on the wall representing his visions. In "The Sleep of Reason," 1988, a small monitor showing a sleeping figure is displayed in a room setting, complete with chest of drawers, rug and vase of flowers; while terrifying, violent images suddenly roar into life on the walls.

Lately, this somewhat laboured approach has been pared down, the video images left to speak for themselves. In the beautiful "Veiling", made for the Venice Biennale in 1995 at which Viola represented the US, the figures of a man and a woman walking towards each other are projected from opposite ends of a series of white scrim screens, their images finally mingling in the central panel. Also made for Venice, "The Greeting" is a sort of animated version of Pontormo's famous painting of the meeting between the Virgin Mary and Saint Elizabeth, re-enacted on video. While tha idea sounds odd, the actual work is astonishingly powerful, a contemporary reworking of one of the great themes of Renaissance painting. The huge screen glows with colour, a feast for the eyes as, in extreme slow motion, the figures of the women re-enact their timeless ritual of recognition and blessing in an hypnotic wash of ambient sound.

Pater Sellars, the theatra and opera director, co-curated the show with David Ross, director of the Whitney Museum and long time colleague of Viola's. "It was a collaborative effort," Viola told me, "But Peter pushed me to open out the works, to make them talk to each other." Thus for the first time the 15 selected installations are presented as a continuous whole, unnamed, unsignposted and unexplained until the very end of the exhibition, when pages from Viola's notebooks are displayed on the walls.

Thus there is no hand visible but that of the artist himself. The spectator must be prepared to submit to the experience of the exhibition, to inch through dark spaces, to be assaulted by sudden blasts of sound and light: a detached viewing is simply not possible.

"The function of images is to intermediate between us and the divine," Viola told me, a belief he has tested over many years of study of comparative religions and philosophy. Made in his affable, unassuming way, the statement still shocked. In our age of irony, where nothing is permitted to be what it seems, Viola is restating as the basis of his work the belief which informed the creation of some of the most powerful art works in history – that they were made in the service of a higher vision, an attempt to find the universal in the struggles of the everyday.

**Bill Viola: a 25-year Survey of Work. Los Angeles County Museum of Art until January 11, 1998 (Tel 213 857 6000). Sponsored by VEBA.**

Theatre in London/**Ian Shuttleworth**

# Plasticine meets Heath Robinson

The immortal words of animated inventor Wallace – "Well, that went as well as could be expected" – constitute a fairly accurate summation of the first stage appearance of Nick Park's now classic Plasticine characters... accurate, that is, depending on how much or little one actually did expect.

*Wallace And Gromit (TM) Alive On Stage In A Grand Night Out*, to give it its full title, is clever, energetic, accomplished and never really successful. Writer and originator of the stage production Andrew Dawson (formerly of Mime Theatre Project, best remembered for their *Thunderbirds FAB*) has created a gallimaufry comprising established characters from *The Wrong Trousers* and *A Close Shave*, theatrical self-referentiality and a plot nicked wholesale from *The Hound Of The Baskervilles*.

The engine of much of the action is Wallace's latest invention, the Pantheatricon, which at the press of a remote-control button sets participants performing in any one of a number of genres, such as Thriller, Horror, Magic, Ballet or Vaudville *(sic)*: it is basically a way of varying the action and allowing disconnected routines onto the stage to fill out 100 minutes or so.

Russ Edwards as Gromit and Angela Clerkin as "Feathers" McGraw, the villainous penguin, pull off no mean achievement in suggesting entire ranges of facial expressions with eyes only – the majority of their faces being obscured by a snout and a beak respectively. Mark Otto Hollander engages in bursts of high-speed gambolling as Shaun the lamb, and Paul Filipiak's Wallace is reunited with his great lost love Wendolene (Joyce Henderson, resplendent in a rigid polystyrene hairdo).

But the real star of the show is Tom Piper's design. The set needs of *A Grand Night Out* have not merely liberated a designer to cut loose, they have positively demanded an outpouring of Heath Robinson exuberance, and Piper has cheerfully risen to the challenge: the caravan-sized Pantheatricon opens out to reveal a raked inner stage, a tiring-room complete with treacherous tip-over armchair, a "Special Effects" closet (two, if you count the magician's false wardrobe on the other side) and even a James Bond-style death-dealing device in its ceiling. Inevitably, the Techno-Trousers also make an appearance.

But the plot and action themselves are not, at root, very engaging. Dawson depends to an excessive extent on the audience's prior knowledge of the Wallace and Gromit films for cues as to how they should react and what they should feel; true, the penguin is hissed whenever he/she/it waddles onstage, but this is more a perfunctory Pavlovian response than a consequence of any onstage nefariousness. The most telling moment of the press night came right at the end; when Nick Park himself and Peter Sallis (the voice of the animated Wallace) were invited up for an honorary curtain-call, the applause which greeted them was noticeably longer and more genuinely fervent than that which the show proper had just received.

**Sadler's Wells at the Peacock Theatre, London WC2, until January 10 (0171 314 8800).**

# In the van of life

If the Bush Theatre regularly attracts unsolicited playscripts of the quality of Helen Blakeman's *Caravan*, Mike Bradwell and his team have little to worry about. The first full-length play from this recent graduate of David Edgar's playwriting course is funny, poignant and intelligent in all the right places; ideals hurtle downhill into reality with an inevitability which is grim, comical or both at once.

Topics are introduced gradually, in registers which keep us guessing. In the opening scene, as Mick the scally cops off with 15-year-old Kim in her Liverpool family's North Wales caravan, his crudity is unsettling but moves in a dynamic equilibrium with the social awkwardness of both characters; only during the few brutal seconds of the sexual act itself is this counterbalancing suspended – in its aftermath, comedy once again insists, almost shockingly, on bubbling to the surface.

Kim's later confession to her elder sister Kelly goes unnoticed amid the radio commentary to the Grand National, but Kelly's comment on the result – "Typical: 'im first, me second" – could apply equally to what Kim has just said. Bruce, the boyfriend of their widowed mother Josie, remarks almost offhandedly, "If there's one thing I hate, it's being on a picket first thing Monday" – a nicely gradual, un-bludgeoning way in which to introduce the outside-world thame of tha Liverpool dock strike.

Blakeman works skilfully with dramatic irony, but without serving it to the audience on a plate; each successive twist of complication in the relationships of these five characters is first hinted at before being openly revealed, so that we squirm exquisitely for the victims as we await the full discovery of events. The caravan (wonderfully created onstage in Bruce Macadie's precise cutaway) becomes a compact crucible for politics, economics and betrayals on both a macro and a micro scale.

Director Gemma Bodinetz and her cast of five – including Elizabeth Estensen, Pip Donaghy, Emma Cunniffe and the first stage appearance of Samantha Lavelle – mix and match emotional registers with great sensitivity; even the intar-scene music is selected with sardonic deliberation. The play's final scene does not so much end as slip into blackout, but Blakeman has mada a remarkabla dabut. To paraphrase Dr Fu Manchu: the world shall hear from her again.

**Bush Theatre, London W12 (0181 743 3388).**

# INTERNATIONAL ARTS GUIDE

## ■ AMSTERDAM

**EXHIBITIONS**
**Rijksmuseum**
*Tel: 31-20-673 2121*
On Country Roads and Fields: tracing the development of Dutch landscape painting through the 18th and 19th centuries, this exhibition atarts with the idealised visions of De Moucheron and Van Huysumm, includes examples of The Hague School post-1860, and concludes with turn-of-the-century works by Van Gogh and Mondrian; to Mar 3

**Van Gogh Museum**
Tal: 31-20-570 5200
Auguste Préault (1809-1879): Romanticism In Bronze. 75 sculptures and medallions by the nonconformist whose works, during his lifetime, were regularly rejected by the Salon jury. This display includes important works produced during tha 1830s and 1840s; to Jan 11

**OPERA**
**Netherlands Opera, Het Muziektheater**
*Tel: 31-20-551 8911*
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 4

## ■ BOLOGNA

**OPERA**
**Teatro Comunale**
*Tel: 39-51-529 999*
*www.nettuno.it/bo/teatrocomunale*
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 2, 4, 6

## ■ CHICAGO

**OPERA**
***Lyric Opera of Chicago***
*Tel: 1-312-332 2244*
*www.lyricopera.org*
Amistad: world premiere of Andrew Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 2, 5

## ■ EDINBURGH

**EXHIBITIONS**
**Scottish National Gallery of Modern Art**
*Tel: 44-131-624 6200*
Correspondences: transferring from the Martin-Gropius-Bau, Berlin, a selection of works by six young Scottish and six young German artists. Organised as an exchange, the display includes painting, sculpture, video and light projections; to Feb 1

## ■ FRANKFURT

**EXHIBITIONS**
**Schirn Kunsthalle**
*Tel: 49-69-299 8820*
Holy Russia: Icons and the Rise of Moscow 1400-1600. 50 rarely exhibited icons lent by Russian museums are the centrepiece of this exhibition, which also includes 16 manuscripts. The period was a crucial ona, which marked the rise of Moscow as a principality ruled by powerful Tsars. Its architecture and art reflect this shift, and illustrate a remarkable synthesis of Renaissance ideas with traditional Byzantina forms. To Mar 1, after which the exhibition will travel to London

## ■ LONDON

**EXHIBITIONS**
**National Portrait Gallery**
*Tel: 44-171-3060055*
Hyenas in Petticoats: Mary Wollstonecraft & Mary Shelley. Celebration of the joint bicentenary of tha two women writers, the birth of the latter having caused her mother's death. Through portraiture, drawings and manuscripts the display examines their lives, times and writings; to Feb 15

**OPERA**
**English National Opera, London Coliseum**
*Tel: 44-171-632 8300*
● Falstaff: by Verdi. This co-production with Opera North, first seen in Leeds, is conducted by Dohnányi and directed by Matthew Warchus. Cast includes Alan Opie in the title role; Dec 1, 3
● The Magic Flute: by Mozart. Nicholas Hytner's production, revived by David Ritch and conducted by Christopher Moulds; Dec 4, 6

**Shaftesbury Theatre**
*Tel: 44-171-379 5399*
The Royal Opera: Il barbiere di Sivíglia, by Rossini. New production staged by Nigel Lowery; Dec 1, 2, 3, 4, 5, 6

**THEATRE**
**Riverside Studios**
*Tel: 44-181-741 2255*
Oh Les Beaux Jours: by Samuel Beckett (1961). Peter Brook directs Beckett's French language version of Happy Days; Dec 2, 3, 4, 5, 6

## ■ LOS ANGELES

**OPERA**
**L. A. Opera, Dorothy Chandler Pavilion**
*Tel: 1-213-972 8001*
*www.laopera.org*
Countess Maritza: by Kálmán. Premiered in Santa Fe this summer, this lively production by Linda Brovsky stars Ashley Putnam and is conducted by John Crosby; Dec 2, 5

## ■ MADRID

**DANCE**
**Teatro Real**
*Tel: 34-1-516 0600*
The Royal Ballet: Anthony Dowell's staging of The Sleeping Beauty, with designs by Maria Bjornson; Dec 1, 2, 3

## ■ NEW YORK

**DANCE**
**New York City Ballet, New York State Theater**
*Tel: 1-212-870 5570*
George Balanchine's The Nutcracker; Dec 2, 3, 4, 5, 6

**OPERA**
**Metropolitan Opera, Lincoln Center**
*Tel: 1-212-362 6000*
*www.metopera.org*
● La Clemenza di Tito: by Mozart. Conducted by James Levine in a staging by Jean-Pierre Ponnelle. Cast includes Anne Sofie von Otter and Anthony Rolfe Johnson; Dec 3, 6
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Dec 1, 4, 6
● Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Dec 2, 5

## ■ PARIS

**CONCERTS**
**Salle Pleyel**
*Tel: 33-1-4561 6589*
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With soprano Eva Mei, tenor David Kübler, bass Jan-Hendrik Rootering and Choir led by Arthur Oldham; Dec 3, 4, 6

**EXHIBITIONS**
**Musée Carnavalet**
Tel: 33-1-4272 2112
Paris and the Parisians in the time of Louis IV: more than 300 engravings, which together create a vivid impression of 17th century Paris. Including portraits, images of the city and its monuments, as well as proverbs, allegorical works, and almanacs; to Jan 18

**OPERA**
**Opéra National de Paris, Opéra Bastille**
*Tel: 33-1-4473 1300*
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Flaming, Susan Graham and Barbara Bonney; Dec 3, 8

***Opéra National de Paris, Palais Garnier***
*Tel: 33-1-43439696*
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 1, 3, 6

## ■ SAN FRANCISCO

**OPERA**
**San Francisco Opera, War Memorial Opera House**
*Tel: 1-415-864 3330*
*www.sfopera.com*
● Eugene Onegin: by Tchaikovsky. Yuri Tamirkanov conducts his 1980s Kirov Opera production, with a cast including Anthony Michaels-Moore; Dec 2, 5
● Pelléas et Mélisande: by Debussy. Conducted by Donald Runnicles in a production by Colin Graham. Frederica von Stade and Simon Keenlyside sing the title roles; Dec 3

## ■ TOKYO

**CONCERTS**
**Suntory Hall**
*Tel: 61-3-3289 9999*
Chamber Orchestra of Europe: conducted by Emmanuel Krivine in works by Prokofiev, Beethoven and Mendelssohn; Dec 2

## ■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wava 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**
Monday to Friday, Central European Time:

● **NBC Europe**
**10.00:** *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
**17.30:** *Financial Times Business Tonight*

● **CNBC**
**08.30:** *Squawk Box*
**10.00:** *European Money Wheel*
**18.00:** *Financial Times Business Tonight*

# Why sanctions don't work

## Congress must reassess its trade relations, says Willard Berry

Many economists, policymakers and pundits have observed that popular sentiment in the US has turned against free trade and investment, in spite of the apparent inevitability of a more globalised world economy.

Opposition to trade liberalisation is demonstrated, for example, the struggle by Bill Clinton, the US president, to convince Congress to renew fast-track trade negotiating authority. A less obvious sign of the lack of understanding of the benefits of global trade is the renewed tendency of US legislators at federal, state and local levels to try to impose unilateral, often extra-territorial, economic sanctions.

Congress, the Clinton administration, and state and local governments seem to believe that the best way to influence foreign behaviour is by threatening to cut off trade. Proponents of sanctions, opting for short-term political gains at the expense of sound long-term policies, have been successful only in limiting US exports, discouraging inward foreign investment, reducing US business activity and employment, and enraging allies whose co-operation is needed to maintain an effective foreign policy.

In the past four years, the US has enacted 81 sanctions laws and executive actions against 36 countries. Congress may pass new laws this year to impose sanctions against countries permitting religious persecution or child labour. Numerous other measures, procurement sanctions for the most part, are being considered by state and local governments.

What is disturbing to the business community is the attitude of legislators in promoting the sanctions measures. Few have had the courage to say in public what most will acknowledge in private – that unilateral economic sanctions rarely achieve their goals. In many cases companies have been blocked from doing business in target countries, but rarely has a foreign government changed its policies because of US sanctions.

Many legislators seem to believe that voting for sanctions is good politics with little cost. Others consider the harm done by sanctions to US interests as the cost of "doing what's right". Even if sanctions have no effect they still make a statement, say many lawmakers.

These views are too often held without any understanding of the harm caused by sanctions and without knowledge of other, more productive, policy options. Sanctions proponents often expect each new measure to be "the next South Africa", even though the sanctions applied to South Africa were but part of a multilateral approach to tackling apartheid. A more accurate analogy for unilateral sanctions would be "the next Soviet grain embargo" – a colossal failure that sacrificed US market share and competitiveness for no foreign policy gain.

Ileana Ros-Lehtinen, a Florida Congresswoman, argued that sanctions help companies by creating stabla governments that lead to good business environments. With friends like her, the business community does not need enemies. The Helms-Burton law, which Ros-Lehtinen so vigorously defends, has done nothing to create a hospitable environment for business in Cuba, and has done nothing to help its oppressed people. The main consequence of Helms-Burton has been to sour trade relations between the US and Europe.

Existing US sanctions have hurt the global operations of 80 per cent of the companies participating in a recent study by the European-American Business Council. Forty-four per cent of companies have had to forego a business opportunity to comply with a sanction law. And 18 companies said they had missed business opportunities worth a total of $1.9bn (£1.1bn).

The survey found that the most common effects of sanctions on companies are a loss of joint venture opportunities, a reduction in US employment, and severed supply relationships. Sanctions that most threaten a variety of economic interests are those that would deny foreign executives US visas, bar bank loans and credits, ban imports or exports, and dany most-favoured-nation status to strategic countries.

A large proportion of companies also reported that US sanctions against Iran, Libya and Cuba have harmed them, even though the sanctions authorised under those laws have been applied sparingly. The Iran and Libya Sanctions Act harmed 66 per cent of respondents, while the Helms-Burton Act hurt 64 per cent. Now some members of Congress are proposing legislation for more aggressive enforcement, which would affect evan more companies. The Council study also found that 70 per cent of companies had been harmed by US state and local sanctions.

By enacting sanctions that violate our global obligations, Congress and state legislatures raise another problem. The administration, which might otherwise oppose many ill-considered sanctions, knows it may be forced to defend them in a World Trade Organisation dispute settlement case, and so is reloctant to take a hard line in public.

The administration's opposition to sanctions aimed at religious persecution stands as an exception, following its weak response to a Massachusetts Burma sanction law, a legislative proposal targeting Indonesia and Mr Clinton's politically motivated support of the Helms-Burton law and Iran and Libya Sanctions Act.

The administration should understand the need to protect the multilateral trading system. Since the WTO was established in 1995 it has proved an effective tool for the US to eliminate foreign trade barriers including tariffs, unscientific standards, and poor intellectual property protection. When the US flaunts its own WTO obligations by erecting secondary boycotts such as Helms-Burton, it puts the entire system at risk and limits the ability of US companies to create high-paying jobs by boosting exports.

Rather than cutting off economic ties with problem countries, the US should promote engagement, which is more likely to be effective. When the US feels that engagement will not work, and that sanctions are the best avenue, policymakers should still consider all other options before sanctions are imposed. The US should also make every effort to build multilateral co-operation before acting unilaterally.

Senator Richard Lugar has helped introduce legislation that requires Congress to weigh the economic cost of sanctions against their potential effectiveness. The bill would not ban the use of sanctions; it would offer Congress more information to make decisions.

The bill would also require sanctions laws to allow for a presidential waiver. New sanctions would have to be written to expire unless renewed by Congress and the administration. This common sense reform proposal would maximise US foreign policy flexibility and minimise the harm done to US workers and companies. Congress should move quickly to enact it.

Meanwhile, the business community must do something about public attitudes toward trade. Not only will we help win fights, such as fast-track, but we will protect our companies from the harmful effects of some well-intentioned but ill-advised legislators who fail to understand who the real target of sanctions usually turn out to be.

*The author is president of the European-American Business Council*

Personal View • **Madeleine Albright**

# Warming to a global plan

## A worldwide effort must be made to tackle the dangers of climate change

Climate change

This week in Kyoto, Japan, representatives of more than 160 nations will gather to forge a common response to what Bill Clinton, the US president, has called "the premier environmental challenge of the 21st century" – global warming. The issues are complex, the proposed remedies diverse. But two facts are clear.

First, we have a broad scientific consensus that climate change is occurring, that it poses serious ecological and economic dangers, and that only a worldwide effort can limit its impact. No one nation or group of nations can solve the problem by acting alone.

Second, if the conference at Kyoto is to succeed, Europe and the US – as industrial powers and main emitters of the greenhouse gases that cause climate change – must work together.

It is said that nine-tenths of wisdom is being wise in time. Unfortunately the challenge posed by global warming is complex: its causes are invisible, its harmful effects are slow to make themselves felt, and its source is internal, indeed basic, to our economies and our way of life.

The temptation is strong to duck the challenge and leave the hard choices, which grow more difficult year by year, to future generations.

But as the Kyoto conference approaches, I am optimistic that Europeans and Americans are prepared to act responsibly, and rise to meet this challenge as we have so many others during this turbulent century.

Mr Clinton has proposed a plan of action that sets out concrete targets and strategies to lower greenhouse gas levels in the near-term and to build on that progress in future years.

The American proposal would return greenhouse gas emissions to 1990 levels between 2008 and 2012. Cuts below 1990 levels would follow. This target is tough and realistic. It represents our commitment to do what we promise, not promise what we cannot do. And it would mean that by 2010, US emissions of carbon would have been cut by abont 25 per cent from newly projected levels.

At the heart of the president's proposal is a plan for robust domestic action: $5bn (£2.9bn) worth of tax incentives and spending for energy efficiency and renewable energy development; reform of federal energy procurement; environmentally sound restructuring of our electricity industry; and industry-by-industry plans to cut emissions.

The US plan also encourages market-based mechanisms to reduce the cost of cutting emissions worldwide, to ensure the best results for the money we spend. For example, it provides incentives for countries to cost-effectively reduce emissions below their target levels: they would earn credits that could be purchased by countries where cuts are more difficult.

The US has also proposed that the Kyoto agreement include provisions for "joint implementation", which would allow companies in developed countries to invest in technologies or projects to reduce greenhouse gas emissions in developing countries, with those involved sharing the credits.

These kinds of market-based innovations have been used successfully to combat acid rain in North America and to support sustainable development around the world. Overall, our approach is designed to create the maximum number of incentives for the development and use of clean technology, and the maximum amount of flexibility for nations striving to reduce emissions.

At the same time, the European Union has proposed reductions of 15 per cent below 1990 levels on three of the six greenhouse gases. The EU proposal does not include the ideas for joint implementation or emissions trading that the US has put forward.

Our shared task is to resolve our differences and achieve a result at Kyoto that is ambitious, comprehensive and realistic. That sounds like a tall order. But if we put rhetoric aside, and tally the full impact of cuts proposed by the US, the difference in proposed reductions between the US and EU plans is smaller than has generally been recognised. Our ideas also have mnch in common with the proposal of our host, Japan, and would provide a sound foundation for global action.

It is essential that the developed nations agree on a strategy to combat global warming. But our actions alone will not be sufficient.

Within decades developing nations will collectively overtake the US and Europe as the largest source of greenhouse gas emissions. As they industrialise, countries such as China and India will generate enormous demand for energy. Unless they acknowledge responsibility for the health of the environment, their rapidly rising emissions may wipe out any gains the developed world has made.

But, again, the issues are complex. Developing countries have the right to expect the nations currently generating the bulk of greenhouse gases to act first. They are right to insist that their economies retain room to modernise and grow. And it is reasonable for them to seek help in devising and using environmentally friendly technology. The US proposal for joint implementation is designed to help address these concerns.

It is essential, however, that as nations become big contributors to the problem of global warming, they also contribute to the solution. The developed countries must lead, but we cannot solve the problem without the developing world. And as Mr Clinton has said, the US will not take on binding obligations without meaningful participation from developing countries.

The Kyoto conference provides an opportunity for the world community to respond to a threat that, if left unattended, will endanger us all.

To succeed, countries must focus not only on what sounds good, but on what will do good; not only on establishing goals, but on achieving them. We must take advantage of the awareness growing in every country that there is a limit to the abuse our atmosphere can absorb, and that economic growth must be environmentally sustainable. And we must all accept responsibility for protecting the earth.

The joint leadership of the US and Europe has done much to shape the history of this century. We now have the opportunity, by working together to build an effective response to global warming, to begin shaping the history, and ensuring the well-being, of the next.

*The author is the US secretary of state*



# ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

## Joint efforts seek end to customs corruption

*From Mr Leonid Lozbenko.*

Sir, John Raven's letter (November 26) on customs corruption provides a valid, if simplistic, view of this very real barrier to economic development.

Dishonesty in customs clearance processes has unfortunately been diagnosed on many occasions but it must also be said that the overwhelming bulk of world trade moves easily and economically through the hands of efficient and honest customs officials.

The World Customs Organisation and its many advanced and professional member administrations concern themselves with handling and implementing effective solntions to the many complex issues that make up the problem. This is done through intensive programmes of reform and modernisation.

Our 1993 Arusha declaration identified that the road to integrity was through modern antomated accounting and business practices, fair pay rates, simplified procedures and, most importantly, customs intervention based on properly assessed risk and not opportunism.

We are daily working alongside many other organisations, including the World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development, and the European Commission to put these steps into practice on a global basis.

Many of our members also invest considerable resources to assist colleague administrations in implementing modernisation programmes.

What the World Customs Organisation or its members cannot change is the pervasive nature of corruption within politics, public administration and commerce in some countries. When this exists the prospect of bringing about effective change within a customs administration in isolation from more fundamental cultural or societal change is bleak. These dishonest role models must be changed or some customs officials will continue to mimic such behaviour.

In this respect, we are particularly heartened to have the support of the International Chamber of Commerce and its efforts to alert its members to the need to end dishonest practices by a small number of unethical or apathetic traders.

**Leonid Lozbenko,**
**deputy secretary general,**
**World Customs Organisation,**
**Rue de l'Industrie, 96-38,**
**B-1040 Brussels,**
**Belgium**

## Justified confidence in Argentine financial system

*From Dr Andrew Powell and Mr Agustin Villar.*

Sir, The FT is right to highlight the fast growth in bank deposits in Argentina and the extraordinary potential that surely exists for the future ("Argentine bank deposits grow fast", November 26). However, I was very surprised to read the account given of the recovery of the financial system after the 1995 "Tequila shock" and that in particular, according to the report you cited, "some 52 per cent of the bank deposits that fled the banking system in 1995 have now returned".

In fact, deposits in the banking system had fully recovered and were at record post-hyperinflation levels by the end of the same year. Furthermore, total deposits today stand at $87.1bn and not the $56.9bn quoted in the article.

Finally, the enhancements to banking regulation and supervision, auditing, market discipline, disclosure and transparency, along with the significant restructuring that has occurred in the Argentine financial system, have paid handsome dividends. The confidence in the financial system is now such that, while the current Asian crisis has affected Argentine stock and bond markets, bank deposits and international reserves have been very stable indeed.

**Andrew Powell,**
**chief economist,**
**Agustin Villar,**
**head of economic analysis and statistics,**
**Central Bank of Argentina,**
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**1003, Capital Federal,**
**Buenos Aires, Argentina**

## Nothing 'second tier' about the Nasdaq market

*From Mr Charles Balfour.*

Sir, As the FT prides itself on the quality of its US coverage, I was puzzled by statements in your report of the Organisation for Economic Co-operation and Development's survey of the country's economy. Wolfgang Münchau, reports ("US tops the entrepreneurs' league", November 25) that the most important factor driving forward the US economy is the growth of small, dynamic companies.

We at Nasdaq like to think that we have played our part in fostering entrepreneurial talent by providing the market of choice for so many of these expanding enterprises, both in the US and throughout the world.

It is gratifying that Mr Münchan should acknowledge Nasdaq's success in helping growth orientated companies to market. I would, however, be interested to know why he described Nasdaq as a "second tier market".

More than 5,500 companies, including leading corporations such as Microsoft and Intel, are listed on Nasdaq, which generates greater average trading volumes than any other market in the US. Indeed, in October Nasdaq became the first US stock market to trade more than 1bn shares in one day.

I was also mystified by Mr Münchau's assertion that Nasdaq is in some way less heavily regulated than other US markets. Nasdaq is fully regulated by the National Association of Securities Dealers and comes under the jurisdiction of the US Securities and Exchange Commission. All Nasdaq listed companies are registered with the SEC. Nasdaq's regulatory framework is in no way "lighter" or less stringent than that governing any other US stock market.

**Charles Balfour,**
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FINANCIAL TIMES

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Monday December 1 1997

# Cool counsel for Kyoto

The idea of regulating the world's climate would, until recently, hava been thought madness, or at least impious folly. Modern technology has changed this. But the representatives of 150 countries gathering in Kyoto today should remember, as they squabble about details, tha awesome scale of their task.

A successful attack on global warming might eventually cost as much as a world war. Yet on some estimates, the devastation caused by a rise in temperature could be even worse than the effects of snch a conflict. A study by Oxford Economic Forecasting suggests that the cost of stabilising industrial countries' carbon emissions at 1990 levels (by 2010) might be of the order of 0.75 to 1.5 per cent of national output. Over 50 years or so, such a programme would represent a very large cumulative loss of welfare.

The Kyoto stakes are therefore high. So are the uncertainties. Most experts agree that increased emissions of "greenbouse gases" have helped to raise average temperatures by about 0.5°C during the last century. It is much less clear what will happen in the next 100 years. Projectlons depend on complex computer models, still under development. Uncertainties remain about the effects of evaporation, rainfall, clouds and the dissolving of carbon dioxide in the oceans, which may help to cool the globe. Some scientists think that increased solar rediation may have been at least as warming as greenhouse gases since the 1880s.

For such reasons, estimates of the likely rise in temperature during the next century vary from about 1°C to 3.5°C. The lower figure would cause disruption and inconvenience, but these would (in principle) be manageable if the world economy continued to grow. Higher temperatures could cause catastrophic floods, storms and droughts.

Thesa uncertainties should not be an excuse for inaction in Kyoto. Far from it. But they should counsel humility to any politician disposed to strike postures or haggle over emissions quotas for the next few years.

Nations start from widely different positions in terms of energy usage, growth prospects and economic interest. It would therefore be better that they should bonestly agree to do what they can within their own political constraints, rather than to negotiate common targets which some nations have no intention of hitting.

Equality of effort should be their principle, with the emphasis on economically sensible measures, such as improving efficiency and abolishing energy subsidies. They should also lay the ground for increased co-operation. An international trade in pollntion qnotas, for example, could greatly reduce the total cost of curbing emissions. Such e scheme would allow rich nations to help poorer ones by buying their quotas – with benefits to both.

Utopian? Perhaps. But it may seem less so in future, if new evidence should prove beyond doubt that global warming is as dangerous a common enemy as some now believe. If Kyoto is to prepare a defence for that time, it must be founded pragmatically in the present: recognising political constraints as much as the limitations of modern science.

# Czech farewell

The defenestration of Veclav Klaus as Czech prime minister removes the most formative influence on post-communist Czechoslovakia. He has mixed great ability with a confidence in his own skills as politician and economist, e self-belief not always entirely justified.

In his favour was a passionate belief in privatisation and a conviction, shared with his idol, Lady Thatcher, that the state should get out of the economy. He contemptuously dismissed advocates of a gradual transition to capitalism as partisans of an illusory "third way".

Ha was equally single-minded in negotiating with Vladimir Meciar, his Slovak counterpart, when it came to splitting Czachoslovakia. He ignored those who argued for a compromise which might hava kept a looser federation, arguing that a clean divorce was better than a messy marriage.

Alas, the problems of transition proved more complicated than he thought. Mass coupon privatisation gave millions of Czechs tiny shareholdings which they sat on or entrusted to poorly regulated funds. The state sector banks which owned many funds proved more interested in retaining formal control than restructuring assets.

The assumption that e privatised economy and free markets regulete themselves was disproved by asset stripping and a leck of transparency. Insufficient understanding of how global financial markets really operate, coupled with the erosion of two competitive "cushions" – low wages and an undervalued exchange rata – led to a humiliating devaluation earlier this year.

The knives had been out for Mr Klaus since he failed to lead his party to a clear victory in the 1996 elections. The financial crisis sharpened them. His single-mindedness bordered on arrogance and lost him friends. Nonetheless, his shaky coalition managed to agree tougher fiscal policies, a bigger welcome for foreign investors, and a new drive to privatise the banks.

He leaves the country stronger and wealthier than wben be took power in 1992. Before, it was the most regimented of Soviet satellites. Today, it is in the front ranks of those seeking to join Nato and the European Union. The foundations of a market economy are in place. But he leaves the Czech economy less entrepreneurial than Poland, and less privatised than Hungary. Much remains for his successors to do.

# Reno's dilemma

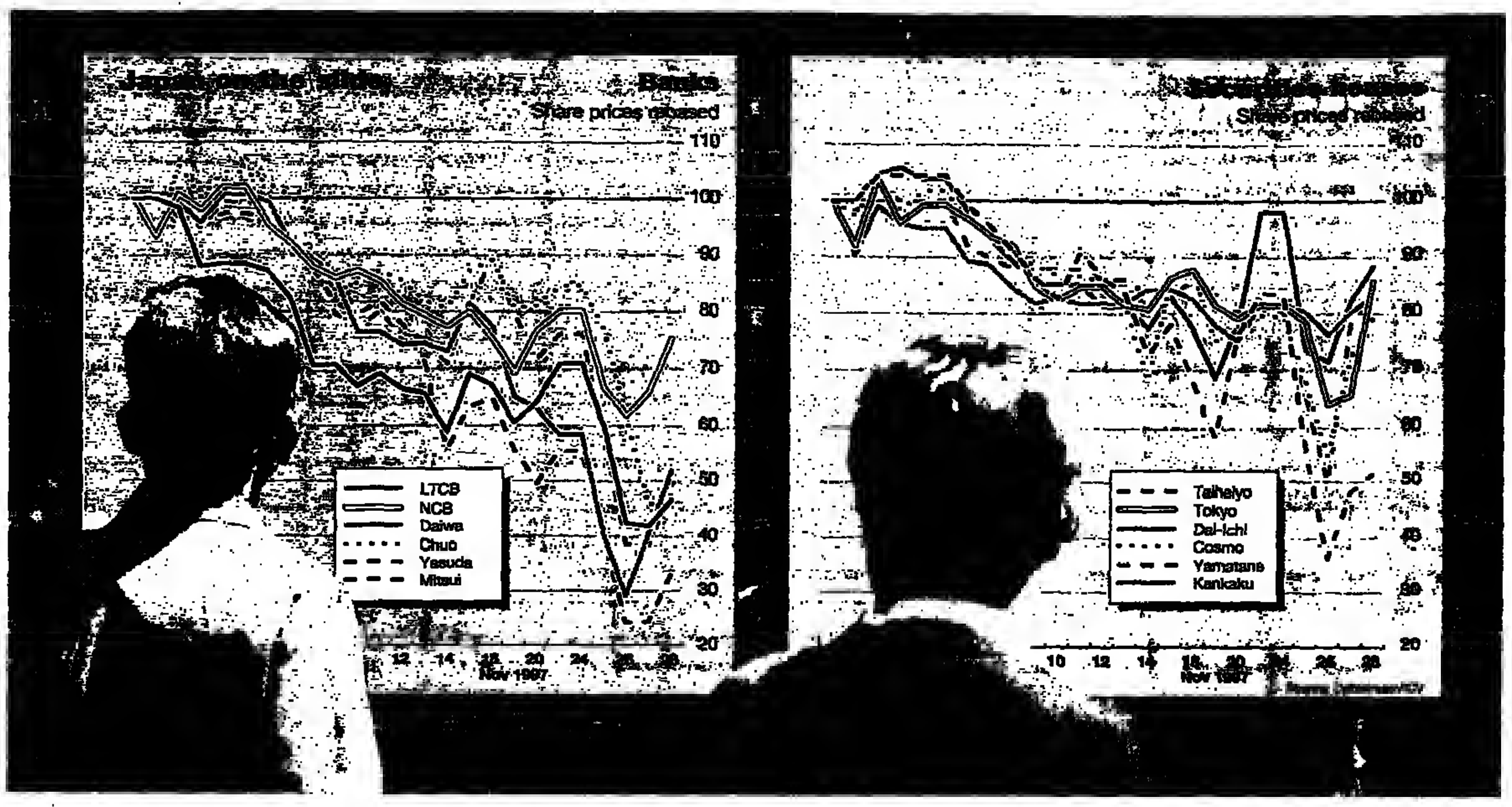
Janet Reno, the US attorney general, is about to decide whether to seek the appointmant of an independent counsel to investigate fundraising telephone calls from the White House by Bill Clinton, the US president and Al Gore, his vice-president. After what has been a prolonged period of agonising, the betting is that she will not take a step which would be seen as politically damaging to tbe presidency. Her decision will no doubt cause much excitement inside tha Beltway. But for most of America, it will seem largely irrelevant.

There are three reasons for this world weariness. The first is that the independent-counsel system, which was enacted in the aftermath of the Wetergate scandal in the 1970s, has been in good measure discredited in recent years. Their investigations appear to drag on forever, at enormous public expense, with very little in the way of tangible outcomes.

The second is that the allegations which would be investigated – whether Mr Clinton and Mr Gore violated the law by soliciting campaign funds from federal property – seem laughably trivial in the context of an election campaign during which botb main political parties plainly ignored the spirit if not the letter of law on a large scale. This autumn's Senate hearings on campaign finance underlined the shortcomings of the present legislation. As Mr Dick Morris, the political consultant regarded as the architect of Mr Clinton's last victory, once observed: "These are such bad laws, with so many loopholes, you'd have to be an absolute genius to be a criminal."

Finally, despite the best efforts of the president's opponents and America's most diligent investigative reporters, no one has yet come up with a smoking gun. There is no evidance that the course of the election wes altered by the intervention of sinister foreign powers, or by sleazy business figures.

Ms Reno's decision will not affect thesa broader issues. Attempts to reform campaign finances have got nowhere, and there is no kind of political consensus for more radical ideas, such as the introduction of free television time for serious political parties. So the president will continue to have to eat an enormous number of dinners to raise money for past debts. And American voters will grow no less cynical about what drives their political leaders.




# Japan reaps what it sowed

## Crisis in the financial system has its roots in flimsy regulation and poor policymaking, argue **Paul Abrahams** and **Gillian Tett**

As Japan's financial sector plunged into crisis last waek, bnreaucrats cast about for wbom to hlame. Some chose to castigate US credit rating agencies, which they claimed had over-reacted in downgrading several banks and brokerages through failure to understand the intricacies of Japan's financial system. Others eccused foreign brokers of driving down bank stocks through short-selling and spreading "groundless rumours".

It was one thing for Mahathir Mohamad, Malaysia's prime minister, to harangue the markets for bringing woes upon his country. It is quite another for the world's second largest economy to take a similar line. By attacking the symptoms and not the causes of its problems, Japan's bureaucrets have raised fears that they are underestimating the depth of a crisis that, if misbandled, could threeten the entire Japanese financial system.

The true enthors of the present predicament are Japan's euthorities themselves. They created the pre-conditions for the collapse of two banks and two brokerages by allowing an asset hubble to develop in the 1980s and by failing to regulete the financial system effectively. Bad loans have been allowed to build up over many years and have only become epparent as companies collapse. By March, the financial system officially had bad debts of Y27,900bn ($219bn), though many believe the real total is mnch higher.

The track-record of poor auditing and financial regulation has left investors unsure of the value of the companies whose shares they hold: not surprisingly they are rushing to sell. Overall, broking sector shares have tumbled nearly 25 per cent since the start of October, while banks bava fallen nearly 30 per cent.

Individual banks have had a still more torrid time as the capital markets have singled out the weak. Since October 1, Yasuda Trust has plunged 77 per cent, Long Term Credit Bank 66 per cent, Daiwa Bank 65 per cent, Chuo Trust 60 per cent and Nippon Credit Bank 43 per cent. Four brokers are trading below the critical Y100 mark at which analysts say they are priced for bankruptcy.

"These are not local building societies," warns Peter Tasker, strategist et Dresdner Kleinwort Benson in Tokyo. "In terms of assets, some of the banks are the size of Lloyds TSB. This is a much bigger problem than the US savings and loan crisis."

Although investors have been eware of the financial industry's problems for some time, their concerns were not fully priced into the stock market until this month. Before then, they expected that weak banks and brokers would be rescued by their stronger brethren – an essential element of the traditional "convoy system". Thet understanding broke down when Sanyo Securities, the country's seventh largest broker, ran into trouble earlier this month. Kokusai, another broker, refused government requests to come to its rescue, and Sanyo sank.

With the convoy system gone, it was not long before another institution collapsed. This time it was the turn of Takugin, the country's 10th largest commercial bank. Its demise belied government promises that none of the top 20 banks would fail. And last month's voluntary liquidation of Yamaichi, the country's oldest and fourth largest broker, nailed home the message that size was no longer a protection against bankruptcy.

The biggest problem for investors now trying to price Japanese risk is the lack of credible information about financial institutions. "The convoy system used to provide a blanket guarantee," says Ken Okamura, financial analyst at Dresdner Kleinwort Benson. "The market cannot be efficient because there is inadequate disclosure to price risk properly."

When bankruptcies bave occurred, the liabilities of failed companies have nearly always vastly exceeded officially disclosed figures. Bad loans et Sanyo Securities turned out to be Y220bn (against the Y80bn previously admitted) following the discovery of 14 affiliate companies not listed in the accounts.

Similarly, it was the admission by Yamaichi of Y264bn worth of losses on hidden off-balance sheet deals – known as *tobashi* – that brougbt down the broker this month. Yet there had been two recent government inspections et Yamaichi, neither of wbich had uncovered such misdeeds even though rumours of losses had been circulating for six years.

Given this background, it is hardly surprisingly the markets bave lost confidence in tbe financial system and its regulators. Reassurances have fallen on deaf ears. Sei Nakai, deputy director of the ministry of finance banking bureau, said last week: "There will be no more failures in the foreseeable future." Banks and brokers have been insisting they are financially sound.

A measure of how far Japan's credibility has fallen is the premium international banks are charging its financial institutions in the money markets compared with US or European banks. At one point last week this more than doubled to 90 points.

The question now is whether Japan's authorities can salvage the situation. In the short term, the Bank of Japan is doing all lt can to hold the banking industry together. On Friday alone, it injected a record Y3,000bn into the domestic money markets in an effort to reduce the banks' cost of borrowing. In piecemeal fashion, it is also making special short-term loans to belp weaker banks cope with massive withdrawals by depositors.

Furthermore, the Bank is lending money cheaply at the official discount rate – though only on a collateralised basis. The problem is that sucb an approach is unsustainable because many banks will soon start running out of collateral.

In the longer term, greater transparency and disclosure will be needed to regain investor confidence. A new reguletory agency, directly accountable to the prime minister's office, is due to be created in June. "What the government must do is to show that it will actually punish [poor disclosure]," says Akio Mikuni, head of one of Japan's independent ratings agencies and e longtime proponent of more rigorous financial regulation. "At present there is a feeling that companies can get away with it."

While that feeling remains, the risk of further turmoil is strong. If more bad and hidden debts are revealed and there is no massive injection of public funds into the banking system, the entire industry could be threatened.

Japan's bureaucrats will find it hard to persuade the public to countenance a full-scale bail-out. The finance ministry became the object of popular opprobrium in 1995 when it used about Y600bn of public funds to rescue the Jusen bousing loan corporations, and it is reluctant to take the lead now wben far larger sums are required. Neither is the ministry keen to stick its neck out at a time when Ryutaro Hashimoto, the Japanese prime minister, is considering an administrative reform to strip the ministry of some of its powers.

The ball is firmly in the politicians' court. Mr Hashimoto, who faces upper house elections in July, must find a way of using public funds without torpedoing his plan to reduce the country's fiscal deficit to 3 per cent of gross domestic prodnct by 2003. He must also convince the electorate that its own interests are at stake: namely, that its savings would be at risk without the use public money.

The ruling Liberal Democratic party is expected to announce a package of measures aimed at stabilising the financial system in mid-December. But the main elements are likely to emerge mucb sooner, possibly as early as this week. Steps will almost certainly be taken to expand tbe pool of money available to protect depositors in the event that another bank or broker fails.

Another option being mulled is that troubled institutions would be encouraged to issue preferential shares that would then be bought by the state. Some analysts say new stock of up to Y10,000bn would be needed. Such a sum would recapitalise the banks without necessarily blowing a bole in the budget since preferred stock could be treated as an investment. "The investment may ultimately have to be written off, but this pain can be postponed into the distant future," says Jason James, bead of research at HSBC James Capel in Tokyo.

Perversely, it may take another large bankruptcy to convince the public of the need for sucb a package. The biggest danger is that, wbile the politicians are busy trying to soften up public opinion, events could slip further from their control.

For the first time, the capital markets – and not the bureaucrats – are in the driving seat in Japan. The credit lines of the weaker banks are being cut back eggressively hy international lenders. In the coming weeks, it may prove impossible for some banks to raise adequate funds to continue business.

The critical task facing the autborities is to prevent the weak from pulling down the strong. If they fail, tbe consequences for Jepan – and for the world economy – could be enormous. Those in charge of Japan's economic and regulatory policies would then only have themselves to blame.

# · O B S E R V E R ·

## Gunboat diplomacy

■ Nato ministers might find the time to have a little chat at their meeting today about one of those glitches which accompanies grandiose projects like the alliance's expansion into eastern Europe – how to find jobs for all the new brasshats.

Hungary, the Czech Republic and Poland are due shortly to sign accession protocols for Nato membership and *amour propre* dictates that some of their top soldiers will want to cut a dash around Nato HQ in Brussels and get out and about directing multinational manoeuvres.

But there's a limited supply of command posts and some of the newcomers won't have the necessary job experience. For example, commanders of frigates and destroyers bristling with weapons on the high seas might not enjoy taking orders from someone who's served on nothing bigger than e river patrol boat, armed with a popgun, in landlocked Hungary or the Czech Republic.

Officials say the alliance can't afford to speed up rotation of senior military posts – "we can't rotate every two years or so or we'll find ourselves in a permanent state of learning," said one. "We'll have to persuade some people to give up their jobs. This will be a most amusing and entertaining exercise." Not for everyone, it won't.

## Home run

■ Mahathir Mohamad's crusade to tame the world's freewheeling currency markets fell somewhat flat at the Apec summit in Vancouver. But this week he's got a certain home advantage when finance ministers or their representatives from 15 nations meet in Kuala Lumpur.

Trouble is, there's late news that some of the top players, such as US deputy treasury secretary Larry Summers and the finance ministers of Japan and South Korea, have pulled out. Mahathir, however, will still be hoping for a decent turnout among the rest for the two-day meeting, during which the International Monetary Fund will divulge preliminary findings of a study on the possibility of regulating currency trade.

There's a chance the gathering may recommend greater transparency in currency trading, but don't expect it to endorse Mahathir's prescription for making such irresponsible activities illegal. Even Malaysia's south-east Asian allies may be muted in their support for Kuala Lumpur - Indonesia and Thailand are receiving aid packages led by the Fund, that archdeacon of free markets.

Perbaps most tellingly, it's now not impossible that Malaysia itself may at some point have to swallow its pride and seek assistance from the IMF. Interesting to see whether Mahathir comes across a touch more conciliatory.

## Maybe Maystadt

■ Is Belgium's snowy-haired finance minister Philippe Maystadt bound for London after 18 years in the Belgian government? Brussels is fizzing with rumours that Maystadt could be the next chairman of the European Bank for Reconstruction and Development. Jacqnes de Larosière, current chairman, leaves in February, and Jean-Claude Juncker, prime minister of Luxembourg – holder of the EU presidency – is headhunting for the post.

Maystadt has said he wants to remain finance minister until Belgium is safely in Emu, but the country is now certain to be among the euro members announced next May. Stories persist linking his name to the EBRD job, despite Maystadt's insistence at a recent EU council that he was "not a candidate".

The world of international finance might well be disappointed if Maystadt doesn't find himself a higher-profile job. He's been touted as e potential director general of the International Monetary Fund, and president of the European Central Bank. After steering Belgium from economic basket-case to euro shoo-in, who better to ensure the single currency's success?

## Cocoa power

■ Meanwhile, there aren't too many subjects likely to unite Maystadt's countrymen. The language and cultural rift between the country's Francophone south and Dutch-speaking North even surfaces at EU council of ministers meetings where Walloon and Flemish representatives disagree publicly over everything from harmonisation directives to telecoms liberalisation.

So there's been much rejoicing over a grand alliance between French-speaking deputy prime minister Elio Di Rupo and Flemish foreign minister Erik Derycke on the one issue guaranteed to unite all Belgians – chocolate. Following a debate between internal market ministers over the content of real chocolate, the two say they're on *la même longueur d'ondes* – the same wavelength. How sugary.

## The Financial Times

### 100 years ago

**German Demands Of China**
Germany has formulated the following demands to the Chinese government:- 1. A money indemnity of 900,000 taels for the murder of the two German missionaries. 2. The erection of a cathedral. 3. The refunding of the expense incurred in the occupation of Kiao-Chan. 4. The degradation of the governor of Shantung. 5. The punishment of murderers and minor officials. 6. A railway monopoly in Shantung. 7. The occupation of Kiao-Chau by Germany as a coaling station. China has refused to discuss these demands until Germany withdraws from Kiao-Chau.

### 50 years ago

**"Blunder" On Rubber Pact**
A charge that Government representatives negotiating for the entry of natural rubber into the USA as part of the recent tariff agreement were "unequal to their task" is made in a statement issued over the weekend by the Rubber Growers' Association. As a result, the Council of the Association declares, more and not less general purposes synthetic will be used in manufacturing in the United States. No increase in dollar earnings will therefore follow.

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Koruna likely to come under renewed pressure

# Czechs in disarray after Klaus resigns as PM

By Robert Anderson in Prague

The Czech Republic faces a prolonged period of political instability after the resignation at the weekend of Vaclav Klaus, the longest serving prime minister in post-communist eastern Europe, and the collapse of his government.

President Vaclav Havel asked for the government's resignation on Saturday after Mr Klaus's two coalition partners withdrew over a funding scandal in the prime minister's party. But after meeting the coalition leaders yesterday Mr Havel asked them to stay in office until Mr Klaus's Civil Democratic Party (ODS) holds an emergency congress on December 13.

Analysts said the Czech currency, the koruna, which has fallen 10 per cent against the D-mark this year, adding to the government's woes, was likely to come under further pressure today. Gabor Bognar, an economist at Goldman Sachs, said: "The development of a political vacuum would be negative news as it may lead to e slowdown of structural reform – including privatisation...."

Ivan Pilip, finance minister, said yesterday important economic policy decisions already approved by the government, including the sell-off the country's biggest banks and the 1998 budget, would proceed.

Mr Klaus, an economist who startled world leaders with his passionate faith in the effectiveness of free markets, resigned at midnight on Saturday after an 11-hour party meeting. He said yesterday that he would be e candidate for leader at the ODS emergency conference but he would not join a new government.

If the coalition cannot agree to form a new government Mr Havel may decide to appoint a cabinet of technocrats to govern until early elections. This is likely to take about six months under the constitution.

Josef Lux, the deputy prime minister and Christian Democrat leader, said yesterday that he wanted a non-party prime minister to take over.

"If there is a chance for a government to emerge without early elections, the only chance is to search for somebody who is not a member of a political party," he said.

Mr Havel said yesterday he was not in favour of early elections.

The fall of Mr Klaus has heen a possibility since the centre right coalition lost its majority in elections last year. However, the final push was given by allegations that he had turned a blind aye to an illegal donation of Kč7.5m ($220,000) and that thare existed a Swiss bank account containing Kč170m in corporate donations given in return for favours.

Two donations totalling Kč7.5m had long been known to be under fictitious names, which is illegal, but the leadership denied knowing the identity of the donor. Milan Srejber, a Czech businessman, revealed this week that he had given the money shortly after winning the privatisation tender for a Czech steelworks in 1995.

# PW and Coopers' partners back global merger plans

By Jim Kelly in London

Price Waterhouse and Coopers & Lybrand will today announce that partners have "ovarwhalmingly" backed their global merger proposals and predict that if regulators agree to the plans 50,000 jobs will be created in Europe by 2003.

Details of the ballot among the 8,500 partners were not announced but it is understood the merger won more than 85 per cent backing in most large fee-earning practices.

"They didn't just support it, they whammed it through," said Ian Brindle, senior partner in the UK for Price Waterhouse and a member of the global management team that would run what would be the world's biggest professional services firm.

The formal merger proposals will be presented to competition authorities in Brussels today. Coopers and PW believe that the EU authorities represent the biggest potential hurdle to their plans. The firms said the proposals would assist expansion of the European Community and said they had already invested $100m in central and eastern Europe over the last five years.

They expected the workforce – already 48,000 people across the Continent – to grow towards 100,000 in five years at a growth rate approaching 20 per cent a year.

The backing of partners for the merger and the start of the formal regulatory process will give the firms the opportunity to attack merger plans announced by Ernst & Young and KPMG – another two of the so-called global Big Six accountancy firms.

They see these plans as a "spoiler" to increase pressure on regulators to block the deal. Peter Smith, chairman of Coopers in the UK and another member of the global management team, said the E&Y-KPMG plans appeared sketchy, informal and limited. "It's a bit like trying to grab a piece of soap," he said.

"Our submission to the Brussels regulators shows our enthusiasm and commitment," he added.

In New York, Nick Moore of Coopers, the new global firm's prospective chairman, and Jim Schiro of PW, its prospective chief executive, were preparing to issue a joint statement today welcoming the vote and forecasting regulatory approval for the merger "early in 1998".

It is understood all the big national practices – including the US and UK – backed the proposals, bnt competitors among the Big Six firms still hope to pick up rebel firms – possibly in central or south America.

"We hope to have some good news soon," said one senior executiva with a Big Six firm.

The formal submission from Coopers and PW will begin a 30-day examination by competition authorities in Brussels which will probably lead to a full inquiry into the merger proposals.

# Opec ministers agree to boost output

Continued from Page 1

Arab Emirates, have until recently stuck to their quotas. In doing so, they ceded the growth in world oil demand to other member states or to non-Opec rivals such as Norway.

Iran's move to open its petroleum sector was seen as a further challenge to the unilateral US sanctions policy aimed at cutting international financial support to the country's oil and gas industry.

Mr Zangeneh said Tehran expected to announce $5bn worth of foreign investments in the country's onshore and offshore oil sector over the coming year.

# NCR tries 'eyeprint' technology in cash machines

By Christopher Brown-Humes in London

Your "ayeprint" could eventually replace your PIN number as a way to authorise cash machine transactions.

Nationwide, the UK's biggest building society, will this week announce plans to carry out tha first customer trials in the world using iris recognition technology.

The technology is seen as more secure than a four-digit personal identification number, and it could allow customars to withdraw bigger amounts from cash machines and benefit from a wider range of services.

Nationwide will test the technology at several automated teller machines and a branch counter at its Swindon, England headquarters over the next six months.

The trials will be carried out with NCR Financial Services, a world leader in automated teller machines – ATMs – and use technology developed by a US group, Sensar Inc.

On first use, a camera at the cash machine will take a photograph of your iris - the coloured part of the eye - and store the information on a database. It takes a further photograph evary time you use the machine to obtain a match and allow the transaction to proceed.

NCR says the photography is not obtrusive and does not involve laser lights. The transaction should take no longer to authorise than with a PIN number, it adds.

Tom Drury, president of Sensar Inc, said: "We think it will change the way people do banking."

Brian Davis, chief executive of Nationwide, said: "We are constantly looking et ways to improva tha service we can provide to our customers and it will be fascinating to test reaction to the Sensar technology." The sociaty has more than 700 branches and 7m customers.

Citibank, the US bank, is also seriously interested in the technology and has separately signed an agreement with Sensar.

NCR says the iris is the one part of the body which is both unique and constant throughout a person's life.

It says bank customars could eventually use ATMs for many purposes other than cash withdrawal, inclnding obtaining airline and cinema tickets and drawing down loans.

A key area of focus will be the machine's false rejection rate – when it refuses to authorise a transaction with a bona fide customer. Sensar says this is "less than 1 per cent and improving".

THE LEX COLUMN

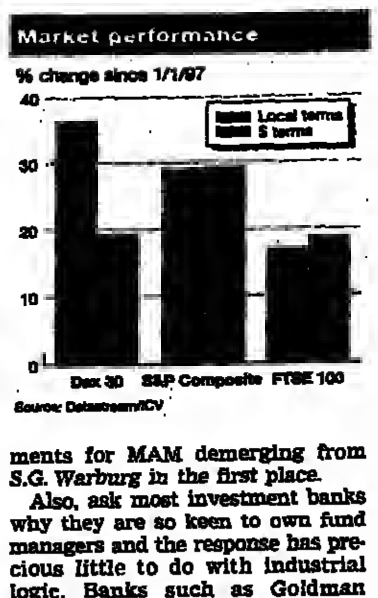
# Japanese numerology

Are the Japanese a superstitious people? During the current financial crisis, whenever a share has slipped below Y100 the market has concluded it is on the critical list. Three financial groups – Yamaichi Securities, Hokkaido Takushoku Bank and Sanyo Securities – have closed shortly after dipping below the magic number. Another four brokers are under Y100 and four just above, leading many to believe further closures are on the way.

On the face of it, such fixation on a round number looks irrational. If it did matter, a company with Y100 shares could simply consolidate two for one – making its stock worth Y200 and effortlessly escaping the danger zone. Yet the group's underlying value would be unchanged.

Still, it would be a mistake to dismiss this as hocus-pocus. Each stock market has a range in which investors feel comfortable. In the US, penny shares have a justifiable reputation as high-risk investments, while stocks above $100 are often split. In Japan during the late 1980s, the bottom end of the comfort zone was only Y500. It is a measure of the market's collapse that the level is now Y100. Especially for retail investors who own a substantial proportion of Japanese brokers' stock such psychological markers matter.

With brokers 85 per cent below their 1987 peak, the market is certainly discounting a dismal future. Many have posted six years of losses and continue to struggle with low trading volumes, weak pricing and intense foreign competition. Despite the failures of Sanyo and Yamaichi, overcapacity remains. Only a few seem willing to cut costs aggressively enough to secure a viable independent future. The rest will go bankrupt, merge or be absorbed into banks.




## Investment banking

The love affair between investment banks and fund managers – as evidenced, most recently, by Merrill Lynch's bid for Mercury Asset Management – may seem curious. After all, there is no synergy between corporate finance and institutional fund management. In fact, there is arguably negative synergy in putting them together given tha potential conflicts of interest: fund managers often have to tread carefully, on corporate governance, for example, so as not to anger the clients of the corporate finance arm. That certainly was one of the arguments for MAM demerging from S.G. Warburg in the first place.

Also, ask most investment banks why they are so keen to own fund managers and the response has precious little to do with industrial logic. Banks such as Goldman Sachs, Schroders and Flemings like the (relatively) steady stream of fund management earnings to counterbalance volatile investment banking profits. And with these particular institutions – the first a partnership and the other two family controlled – there is a sort of financial logic. After all, they cannot diversify their wealth quite as easily as ordinary portfolio investors. That said, the argument is not compelling: if all they were interested in was a financial cushion, it would probably be more sensible to stuff their balance sheets with even less volatile cash rather than fund management assets.

Merrill, though, is a different kettle of fish because it has not just fund management and corporate finance, but a third piece to the jigsaw puzzle – a retail distribution network. Given that the costs are largely fixed, it makes sense to pump multiple products down the network. In addition to offering its retail investors the chance to participate in issues it underwrites, why not sell them mutual funds too?

Merrill, of course, already does this with both its own branded funds as well as independently managed ones. MAM will provide it with a second brand – particularly useful in international markets where Merrill itself is weak.

Owning two brands while juggling multiple independent ones may seem a bit muddled. It will certainly require clever marketing and deft management. But the business model is really no different from thet of many successful retailers which reap high margins from their own hrands while stocking independent products for variety. The same logic, of course, applies to other investment banks with retail networks. It will not be surprising if Morgan Stanley/Dean Witter and Salomon/Smith Barney follow suit.

## German shares

The D-mark's 6 per cent rise against the dollar since its August trough has taken some of the shine off the golden scenario that German equities have been enjoying. Since March 1995, when the dollar started to strengthen, the DAX 30 index has more than doubled in value. A rising currency – added to Asia's problems – could spell trouble for an index heavily weighted towards tradeable goods. Indeed, the DAX has lost around 8 per cent of its value since the currency turned.

The point has not been lost on foreign investors. Having put a record net $36bn into the market between January and September, they are now pulling back. According to estimates from CSFB, foreigners have sold $3.5bn of German equities in the past two months.

Many analysts think they have been too hasty. They argue that concentrating on the currency alone ignores the other prop that has supported the market's rise – corporate restructuring. It is not, however, clear that restructuring, which is far from uniform throughout German industry, will be enough to keep the market moving.

What is clear is that the benefits of recent restructuring are encouraging analysts to hold their forecasts despite the D-mark's rise. German unit labour costs, for instance, are down on the year and wages are almost static, figures which suggest German industry can bear some measure of currency appreciation. And do not forget that the D-mark is still 14 per cent weaker against the dollar than at the start of the year.

Still, the heady days of the past two years are almost certainly over. Earnings growth is likely to slow from 25 per cent or more this year to about 15 per cent in 1998. That is broadly in line with other European markets but, with Germany's earnings momentum more sharply downward, its 18 times price/earnings multiple for 1998 could be vulnerable. Having been a star performer this year, the risks are now on the downside.



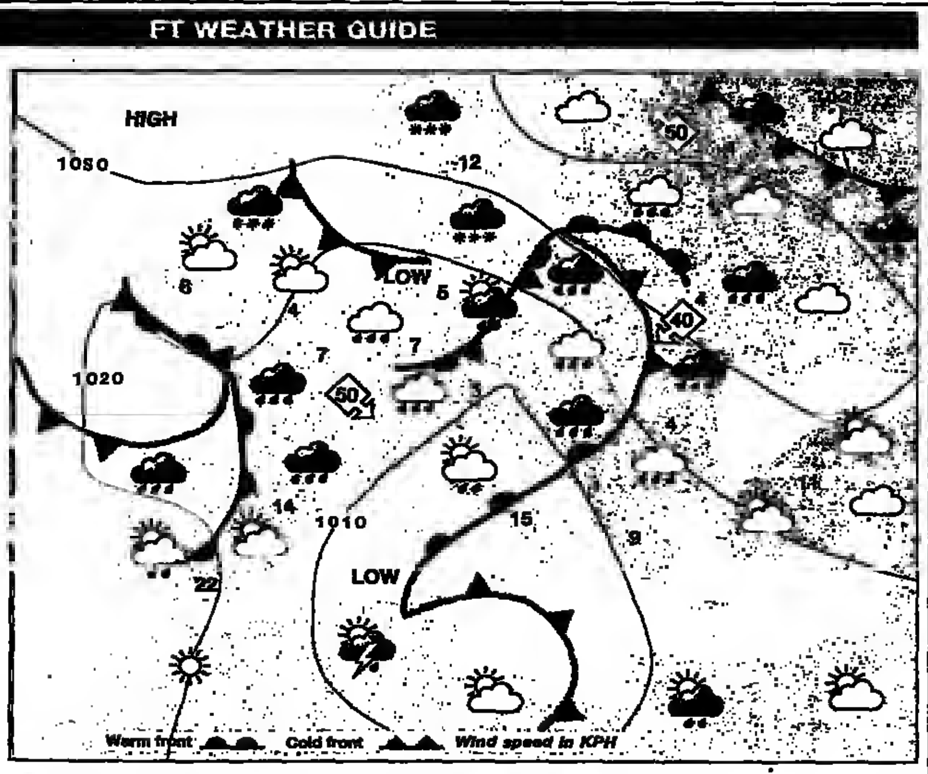
## FT WEATHER GUIDE

### Europe today

Scandinavia will be very cold and most places will have snow with Sweden and Finland having heavy falls. Southern Sweden and the Baltic states will become milder with snow turning to rain. Central and western Europe will be grey and damp with drizzle but eastern Europe and the Balkans will have heavier rain. The north will become brighter but showers are still likely. Southern France and much of the Iberian Peninsula will be sunny but northern parts will become cloudy and wet. Italy and Greece will also see rain, with heavy showers and scattered thunderstorms.

### Five-day forecast

High pressure will provide north-western Europe with settled conditions. In the second half of the week, a disturbance will move into western Europe causing increasing cloud, showers and rain. The Mediterranean will be settled.




Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Maximum | Beijing | Sun 1 | Cardiff | Rain 7 | Frankfurt | Sleet 4 | Madrid | Fair 14 | Rangoon | Sun 35 |
| | Celsius | Belfast | Fair 5 | Casablanca | Sun 20 | Geneva | Hail 7 | Majorca | Fair 18 | Reykjavik | Fair 1 |
| Abu Dhabi | Sun 28 | Belgrade | Rain 10 | Chicago | Sun 6 | Gibraltar | Sun 18 | Malta | Thunder 17 | Rio | Fair 27 |
| Accra | Fair 31 | Berlin | Shower 5 | Cologne | Rain 7 | Glasgow | Fair 5 | Manchester | Fair 6 | Rome | Shower 15 |
| Algiers | Thunder 16 | Bermuda | Rain 26 | Dakar | Fair 29 | Hamburg | Rain 6 | Manila | Fair 31 | S. Frsco | Fair 17 |
| Amsterdam | Shower 7 | Bogota | Thunder 21 | Dallas | Sun 14 | Helsinki | Snow -4 | Melbourne | Fair 25 | Seoul | Cloudy 1 |
| Athens | Thunder 17 | Bombay | Sun 34 | Delhi | Fair 23 | Hong Kong | Rain 21 | Mexico City | Fair 24 | Singapore | Thunder 32 |
| Atlanta | Sun 16 | Brussels | Fair 6 | Dubai | Sun 28 | Honolulu | Fair 27 | Miami | Fair 24 | Stockholm | Sleet 6 |
| B. Aires | Fair 23 | Budapest | Rain 8 | Dublin | Fair 7 | Istanbul | Shower 15 | Milan | Fair 12 | Strasbourg | Shower 5 |
| B.ham | Fair 5 | C.hagen | Rain 5 | Dubrovnik | Thunder 15 | Jakarta | Fair 32 | Montreal | Snow -2 | Sydney | Sun 25 |
| Bangkok | Fair 36 | Cairo | Fair | Edinburgh | Fair 5 | Jersey | Rain 10 | Moscow | Snow -7 | Tangier | Fair 66 |
| Barcelona | Fair 17 | Caracas | Fair 30 | Faro | Sun 19 | Johannesburg | Shower 22 | Munich | Rain 4 | Tel Aviv | Shower 23 |
| | | | | | | Karachi | Sun 28 | Nairobi | Thunder 22 | Tokyo | Rain 18 |
| | | | | | | Kuwait | Sun 23 | Naples | Shower 16 | Toronto | Cloudy -2 |
| | | | | | | L. Angeles | Fair 20 | Nassau | Fair 27 | Vancouver | Rain 6 |
| | | | | | | Las Palmas | Sun 25 | New York | Fair 6 | Venice | Rain 12 |
| | | | | | | Lima | Fair 26 | Nice | Sun 17 | Vienna | Rain 4 |
| | | | | | | Lisbon | Fair 17 | Nicosia | Fair 20 | Warsaw | Rain 4 |
| | | | | | | London | Drizzle 7 | Oslo | Sleet 1 | Washington | Sun 8 |
| | | | | | | Lux.bourg | Fair 5 | Paris | Rain 7 | Wellington | Fair 17 |
| | | | | | | Lyon | Rain 7 | Perth | Sun 23 | Winnipeg | Snow -1 |
| | | | | | | Madeira | Cloudy 21 | Prague | Rain 4 | Zurich | Rain 5 |

FINANCIAL TIMES

# COMPANIES & MARKETS

Monday December 1 1997 Week 49





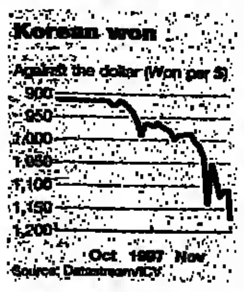
**INSIDE**

## Carriers clash over US air route

The bitter rivalry between British Airways and Virgin Atlantic is expected to flare up again when the two clash over the last non-stop route between Britain and the US. The groups face the UK Civil Aviation Authority today with rival bids for sole rights to the route. Page 20

**INTERNATIONAL EQUITIES**
**Market turmoil delays Brazilian offers**
Brazil's privatisation programme, the biggest in the world at present, has been dominated by trade sales, leaving little to interest equity investors. And just as this was set to change, the crisis affecting world capital markets threatens to force the government to postpone – or even cancel – some big offers. Page 23

**CURRENCIES**
**Traders focus on dollar/yen rate**




Strategists hope the Thanksgiving holiday will bring a quieter period to foreign exchange markets, at least until the end of the year. One of the parities they will be keeping an eye on is the dollar/yen rate. The dollar ended last week at Y127.6, although this overstates the yen'e weakness on a trade-weighted basis. Opposing pressures make this a particularly difficult time to predict the dollar/yen rate. Page 24

**EMERGING MARKETS**
**Israel tightens fiscal strings**
Yaakov Neeman, Israel's financa minister, has his work cut out trying to avert strikes by the Histadrut, the trade union federation. The union opposes expenditure cuts Mr Neeman demands for next year's budget. He also has to persuade the governing rightwing Likud coalition to accept his tight fiscal policy. Page 25

**INTERNATIONAL BONDS**
**Tokyo moves to reform tax system**
The panic in offshore Japanese government bond markets following the collapse of Sanyo Securities and Yamaichi Securities highlighted glaring anomalies in Japan's JGB trading system: namely the country's arcane withholding tax system. Pressure on the government has led to new moves to reform the system. Page 25

**COMMODITIES**
**Conference to discuss future of CAP**
On Wednesday a conference in London will discuss the history and future of Europe's Common Agricultural Policy. The CAP, which takes about half of the European Union budget each year, is regarded as the most complicated policy ever to have emerged from Brussels. Page 24

**MARKETS THIS WEEK**
***New York***
As the market gets back into gear following the Thanksgiving boliday, some analysts fear the liquidity problems in Japan may lead to large sales of US Treasuries. Page 24

**Frankfurt**
Low interest rates and the renewed firmness in the dollar are underpinning the market. Page 24

**Tokyo**
Japan's markets are expected to be a little calmer this week. Investors will be looking to *third-quarter GDP* data on *Wednesday*. Page 24

## FT GUIDE TO THE WEEK – full listings Page 36

**MASTERS FOR SALE**
Sotheby'e begins a two-day anction of important Old Master paintings on Wednesday – the *biggest in a week of* sales in London that provides a vital opportunity for Sotheby's, Christie's and Phillips to re-establish the city's threatened status as a leading centre for the marketing of art.
**TREATY TO BAN LANDMINES**
More than 110 countries are expected to sign an international treaty banning anti-personnel landmines at a three-day conference in Ottawa starting tomorrow.
***FIGHTING ORGANISED CRIME***
European Union justice and interior ministers meet in Brussels on Thursday to discuss the fight against organised crime.

**Companies in this Issue**



**Market Statistics** http://www.FT.com



# Roma bank raises $1.7bn

## Italian share offer to domestic investors three times subscribed

By James Blitz in Rome

Banca di Roma, Italy's second largest banking group, successfully completed a L3,000bn ($1.74bn) recapitalisation at the weekend after a share offer to Italian domestic investors was three times subscribed.

In spite of fears among international investors that the bank would bave difficulty turning itself around after sustaining first-half losses of L2,794bn earlier this year, it emerged that about 290,000 members of the Italian public had queued up in banks last week and pledged to participate in the offer.

The sale to international and Italian institutions was marginally less successful and was two times subscribed.

However, Cesare Geronzi, the bank's president who has master-minded the operation, said he was delighted by the response, claiming it represented a "fundamental step" in tbe restructuring of the bank.

At a board meeting at the weekend, Banca di Roma decided to increase the number of sbares to be sold to domestic Italian investors from the 900m that were announced in an indicative tranche nine days ago.

Some 1,560m ordinary shares will now be sold to the Italian public, yielding e total revenue of L2,100bn. Each investor will he asked to pay L6,790m for 5,000 shares et an offer price of L1,358 per share.

By contrast, the size of the institutional offering has been brought down from the 700m shares stated in the indicative offer last weekend.

Some 400m ordinary shares will now be placed with institutions, yielding revenue of L550bn.

The total revenue from the operation – including the share offer, a convertible bond issne and the purchase of shares by core investors – will yield L4,900bn.

Of this, L3,000bn will be injected into Banca di Roma and the remainder will go to Iri, the state bolding company, which has sold its 36.5 per cent direct and indirect stake in the bank as part of the operation.

A survey of Banca di Roma's capital shows that 44.8 per cent is held by retail and institutional investors. Meanwhile, some 14 per cent is held by Italian banks and other organisations which took part in a private placement – among them Comit, Credit, Electronic Data Systems of the US and three Arab banks, including the Libyan Arab Foreign Bank which bolds 5 per cent of Banca di Roma's overall capital.

This leaves two strategic shareholders who, ahead of the Libyans, have the largest individual tranches of share capital – Ente Cassa di Roma, the bank's bolding company, which has 32.7 per cent and Toro Assicurazioni, the insurance arm of the Fiat car empire, which bas 8.3 per cent.

# Merged security agency hit by staff defections

By William Lewis in New York and Jimmy Burns and Andrew Edgecliffe-Johnson in London

Kroll O'Gara, the investigations nnd security company which formally begins life tomorrow, is facing an immediate threat in two of its key European markets following the defection of senior executives from its Loodon and Moscow offices.

Kroll O'Gara has been created through tbe $89m merger of O'Gara, a US security company, and Kroll, one of the world's leading Investigations agencies.

Its shares wlll be traded on the US Nasdaq stock market – the first time an investigations group has become a public company.

Over the last two montbs more than 20 senior executives and investigators based in Kroll's London and Moscow offices have resigned to join a new company formed by Arish Turle, Kroll's former European chief. Mr Turle was forced out earlier this year after Kroll's founder and chairman, Jules Kroll, had blocked bis long-running plans for a management buy-out.

This week Mr Turle, a former SAS officer and co-founder of Control Risks, a competitor to Kroll, will formally launcb his company, The Risk Advisory Group, from an office in Bloomsbury.

It is expected to position itself as a more mainstream part of its clients' advisory teams, in an effort to shake off the "gumsboe" image which has dogged corporate investigators.

Kroll executives insist that the defection is unlikely to have any material impact on the company's earnings. "We chose to move in a different direction. We did it with open eyes," said Michael Cherkasky, Kroll's chief operating officer.

The new venture plans to have two main divisions, reflecting Kroll and O'Gara's respective strengths – investigations/security and equipment manufacturing. O'Gara is thought be particularly interested in the Chinese and Russian markets.

"We are moving towards a new industry. We plan to grow organically through the acquisition of closely related companies," Mr Kroll said.

# Fidelity to sell mutual funds via Japanese banks

By Gillian Tett in Tokyo

Fidelity, tbe US fund management group, will today become the first foreign group to sell mutual fund products throngb Jepanese bank branches in an effort to reach e broader range of consumers.

Invesco, the US fund management group, is also poised to start sales in Japan.

The moves come amid rising expectations that the recent collapse of Yamaichi Securities and two other large financial institutions will leave Japanese savers seeking alternatives for their savings.

In particular, there are growing signs that the recent turmoil is prompting some Japanese savers to abandon the country's weaker banks and brokers.

Firm data on the degree to which the latest events have prompted withdrawals from brokers and banks is not available. However, figures show that foreign investment trust sales through brokers bave risen from Y155.9bn ($1.2bn) in March 1997 to Y217.1bn in September.

Government officials deny there is firm evidence of serious *runs on any* banks and bave pledged to protect all depositors.

However, last week long queues formed at branches of Yasuda Trust Bank, as some savers tried to withdraw their money after the bank was downgraded to junkbond status by Standard and Poor's, a US credit rating agency.

Yamaichi Securities has also been deluged by Japanese trying to withdraw their money, and other weaker regional banks are reported to have faced similar demands.

The trend appears to be benefiting some of the strongest Japanese groups. The Bank of Tokyo Mitsubishi, the largest bank, is experiencing a sharp increase in applications to open bank accounts, industry sources say.

However, hopes are rising among foreign observers that the trend will also boost the position of foreign banks and fund management companies. The US group Citibank, for example, which is the only foreign bank running a retail service in Japan, has recently experienced e sharp increase in business.

Fidelity will start selling its products through a branch of Long-Term Credit Bank today, and then expand it to Sumitomo Bank and Sanwa Bank in the coming weeks.

Fidelity had initially intended that its sales through bank branches would be a small pilot project. However, inquiries from Japanese customers bave already been much higher than expected, meaning that the project may be expanded more rapidly.

Many other Japanese and non-Japanese fund management groups are now scrambling to rent space in bank branches to distribnte their products.

Untll this month, bank branches were banned from renting space to fund management groups. This forced fund managers to distribnte their products through Japanese brokers alone.

However, the industry hopes the new distribution alternatives could trigger a significant expansion of the mutual fund industry.

# Eyes on small share buyers

## Fears over Asian strife could hit sell-offs

It has not been an auspicious introduction to the equity market for numerous retail investors throughout Europe and the Far East. In the past two months, both Europe and Asia Pacific have seen probably the largest ever concentration of privatisation offers, with companies from Telecom Italia to Telstra fighting to win new investors to the stock market.

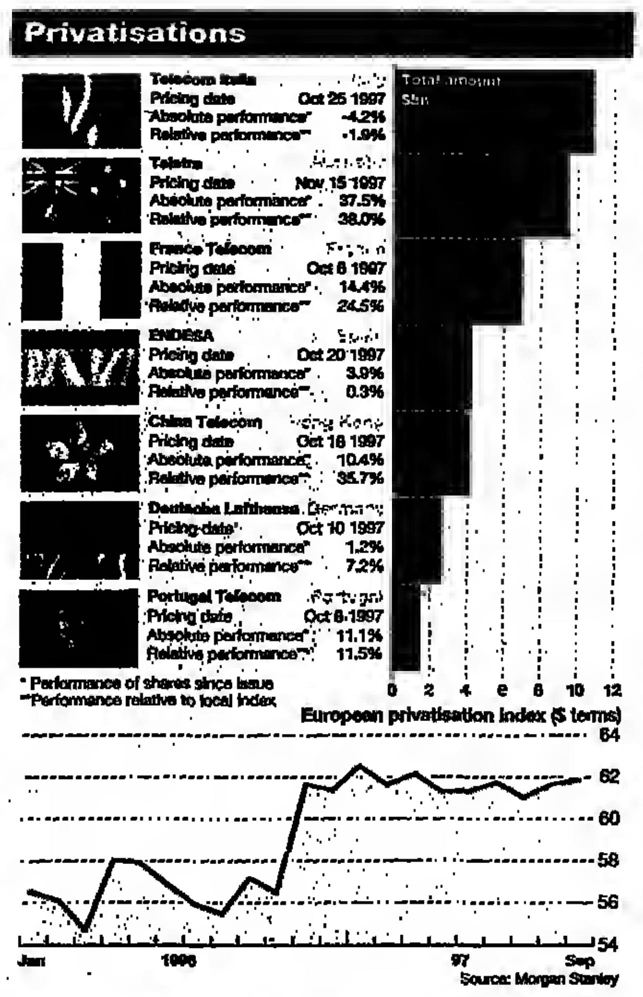
But this new class of investor was enticed into the market just as the currency and stock market turmoil spread out from Asia and brought global markets down with it.

The recent privatisations, bowever, have so far withstood the maelstrom. Telstra soared on its opening day, as equities in Tokyo and Hong Kong took another battering.

China Telecom, Endesa, France Telecom, Lufthansa, Portugal Telecom, Telecom Italia and Telstra raised more than $40bn between them in the past two months – and only Telecom Italia is trading at below its offer price. "The retail investor element of these issues has been critical to their success," said John Hyman, *executive director* of Morgan Stanley Dean Witter.

Governments have been involved in an aggressive sales campaign to small investors, since in many cases the privatisation programme has been driven by ideological, as well as macro-economic, factors.

With European Economic and Monetary Union imminent, many European governments have been keen to cut debt. Bnt in cases such as




Spain and Italy, there has been a push to follow former UK prime minister Margaret Thatcher's ambition of creat*ing* a nation of shareholders.

For many of these new issues, retail investors got a substantial portion of the share allocation, so institutional investors bad to bny shares in the stock market to retain a balanced exposure to the local stock market.

Moreover, retail investors have had long-term incentives for holding their shares, such as bonus issues after one year.

Performance has also been helped by the fact that most of the companies floated were in defensive sectors, primarily telecommunications. For secondary offerings – sales of further tranches of government-owned shares in an already listed company – the share price tended to fall in the lead up to the issue, as with Endesa.

And the companies' merchant banking advisers have been providing some support for share prices in the initial stages after trading begins.

Nonetheless, Mr Hyman says: "In the first round of the Frencb privatisation programme, there were eqnally high levels of retail subscription. But when the first correction came in the stock market, those retail investors fled to the hills."

New retail investors heve

Brazilian delay, Page 23

been lured to the stock market by the performance of issues such as Deutsche Telecom and Eni, or the recent explosion of Chinese "Red Chips" in Hong Kong. Any disasters would make attracting investors to the next issue much harder.

"The shakeout has already caused a definite slow-down in privatisation offerings," said John St John, co-bead of equity capital markets at Salomon Brothers. "It's just a questiou of when they can get done."

Over the next year, share offerings are expected from Endesa and Argentaria in Spain; SGS Thomson, Banca di Roma, Alitalia and Autostrade in Italy, and then Telia, Swiss Telecom and Telecom Finland. These could require around $20bn of cash from investors. The performance of recent share offers will be vital for supporting the pipeline.

**Simon Davies**

# New cars intensify battle for Rolls

By Haig Simonian, Motor Industry Correspondent

The competition to buy Rolls-Royce Motor Cars, the luxury vehicles subsidiary of Britain's Vickers industrial group, has intensified after signs that Rolls-Royce's next generation of products could be ready as early as February.

Company officials say the latest Rolls-Royce and Bentley models are further advanced than previously thought, while prodnction of the existing range has heen virtually terminated, with most vehicles in the distribution pipeline sold.

The company is expected to invite journalists to see the new cars in February, ahead of a public launch at the Geneva motor show in March.

The successors to the current Rolls-Royce and Bentley saloons, which are about two decades old, are known to be slightly smaller, lighter and more economical than their predecessors. However, Rolls-Royce has said nothing about their styling or performance for fear of damaging sales of tbe existing range before stocks ran ont. Officially, the company *only* says the new cars will be ready before the end of the century.

The new models will use engines and components from BMW of Germany. A modified version of the 12-cylinder engine in BMW's flagship 750 model will power tbe Rolls-Royce, while the Bentley will use a turbocharged version of BMW's latest eight cylinder model.

BMW's technology links have made it the favourite to buy Rolls-Royce. However, Mercedes-Benz, the German vehicles group, and Volkswagen are also in the frame.

Although Mercedes-Benz has denied interest, insiders are not convinced. In late 1994, the company was poised to sign an engine snppiy deal with Rolls-Royce, only to be beaten by BMW. Last October, Mercedes-Benz unveilad the Maybach, a Rolls-Royce rival.

Volkswagen's interest is also serious, in spite of the lack of obvious synergies. Ferdinand Piëch, VW's tough chairman and a keen automotive engineer, is believed to favour the survival of famous brands, such as Rolls-Royce or Porsche, the German sports car company controlled by the Piëch and Porsche families.

VW has been investing heavily in new multi-cylinder engines, which could be suitable for future Rolls-Royces.

A final announcement on the sale is not due until the first quarter of next year. Rolls-Royce engineers are believed to favour Daimler-Benz because of its experience in luxury cars and its strong distribntion network. Conveniently, an acquisition by Daimler-Benz would also kill off the Maybach.

COMPANIES AND FINANCE

# BSkyB plans to make films for TV

By John Gapper, Media Editor

British Sky Broadcasting, the UK satellite television company, intends to start making made-for-television films with budgets of up to £5m ($8.4m) as part of an effort to expand its investment in British programming under Mark Booth, its new chief executive.

In his first interview since taking over from Sam Chisholm last month, Mr Booth said BSkyB was about to hire executives to oversee investments in made-for-television films. In the longer term, it might set up a subsidiary similar to Time Warner's Home Box Office operation.

Mr Booth also disclosed that BSkyB is to split control of its programme networks, such as Sky One and Sky Sports, from its setellite broadcast service, in an attempt to improve its discipline over costs and revenues.

He indicated there was likely to be further turnover within BSkyBs senior management.

"The key people we want to stay are staying, but there are some parts of the company that could be mnch more effective than in the past, and there will be changes," he said.

Mr Booth, who was previously chief operating office of News Corporation'e JSkyB Japanese satellite television joint venture, wants to improve the marketing of BSkyB to consumers who are not interested in sport, on which mucb of its growth to date has been based.

He said there would be a gradnal increase in tbe amount of money invested in original British programmes, both for its Sky One entertainment channel and for its Sky Movies channels.

"Some films will be financed by ourselves and some with others, depending on bow good the ideas are. We are going to start modestly, and walk before we can run, but we know how to manage creative people and this is an obvious and important growth area," he said.

Mr Booth confirmed that BSkyB had held discussions with some UK production companies abont taking minority stakes, but said it was unlikely to proceed.

"If you invest in one, it sometimes makes it harder to deal with the others, so I tbink it is unlikely," he said.

BSkyB intends gradually to raise its investment in UK programming for Sky One, which has put more emphasis on imported US programmes.

Mr Booth said the increase in UK programmes would be evolutionary rather than radical bnt it would invest significant amounts.

# Eastern promise for Provident

By George Graham, Banking Editor

Provident Financial, the UK's leading collected credit company, is on the point of starting lending in the Czecb Republic and may turn its sights to Hungary.

Howard Bell, chief executive, said Provident had received approval from the Czech authorities and hoped to begin lending in koruna by the turn of the year.

The new venture follows the launch of a lending business in Poland this summer. Since its founding in 1880, Provident bad never ventured further afield than Ireland.

"We sat down and looked overseas, and it was clear our target areas should be places where the financial system was less well developed," said Mr Bell.

The eastern European businesses replicate Provident's business model in the UK, where a network of agents makes unsecured loans averaging £200 ($334) or less, and collects weekly repayments in cash. Women make up 80 per cent of both agents and customers, and credit assessment is by personal judgment, rather than by the scorecards used by banks and consumer credit companies.

In Poland, Provident began in a joint venture with BEN, a local commercial bank which provides wholesale funds to be lent on through a network of 20 agents. So far, Provident had recruited 165 customers, which Mr Bell acknowledged was "little ecorns".

In the UK, Provident is also experimenting with a broader range of financial products.

It has introduced e simple whole life assurance policy underwritten by Pinnacle Insurance, with a standard £120 a year premium. The pay-out is determined according to age and sex, and to whether the policyholder is a smoker.

Provident sold 6,000 policies in a trial run, and is now assessing whether it has set the underwriting criteria correctly. "It's a nice simple prodnct which the industrial life people are moving away from," Mr Bell said.

Collected credit companies are often criticised for the high costs they charge to borrowers. Mr Bell said many customers had access to other sources of credit but cbose Provident because of the individual service provided.

"It's the same philosophy as the milkman: I still like my milk delivered, even though I know it's more expensive than picking it up at the supermarket."


Tony Andrews

The UK Civil Aviation Authority will today hear rival bids for the final 'gateway'

# BA and Virgin poised to lock horns over US route

By Andrew Edgecliffe-Johnson

The bitter rivalry between British Airways and Virgin Atlantic is expected to flare up again today when the two clash over the last non-stop route between Britain and the US.

The two companies will go before the UK Civil Aviation Authority with rival bids for sole rights to the route.

BA has applied to fly from Gatwick airport to Denver, Colorado. Virgin is seeking permission for a twice-weekly flight from Gatwick to Las Vegas, Nevada, which it hopes to build up to a daily service.

BA has cited an increase in leisure and business demand as a reason for opening np the Denver route, which has not had a non-stop service for two years.

Richard Branson, Virgin's chairman, will tell the hearing that Las Vegas is the fastest growing business centre in the US, with strong demand for family tourism.

Virgin, the smaller company with flights to eight US cities against BA's 22 cities, argues that it sbould be awarded the route to promote diversity in the long-haul market.

BA counters that Denver attracts more UK passengers each year.

The bilateral air services trade agreement between Britain and the US limits the number of "gateways" into the US. The two companies expect a decision before Christmas.

# Liberty plans to transform its store

By Robert Wright

A plan by the management of Liberty, the luxury London department store, to open a rooftop restaurant, introduce a food ball and start a range of new services has become the latest focus for criticism by dissident shareholders.

Details of the £43m ($72m) development of the Regent Street store have been given at presentations in the run-up to a December 11 EGM. Dissidents holding 47 per cent of the shares aim to depose Denis Cassidy, chairman, and to install their own representatives.

Brian Myerson, wbose Concerto Capital Corporation holds 17 per cent of the shares, and Odile Griffith, financial adviser to the Stewart-Liberty family, which holds 27 per cent, are seeking election to the board. Manny Davidson, a property developer and associate of Mr Myerson, has also pledged his 2.8 per cent stake for the dissidents.

They are angry with the amount of information provided by the board about the redevelopment. They claim that no rationale has been provided to justify opening the unused upper floors of one of the three buildings on the store site.

The dissidents claim the management's plans threaten the unique atmosphere of the store.

Shareholders also beard that money would be spent on providing left luggage facilities, rooms for beauty treatments, personal shopping services and improved ventilation and lighting. Offices at the Regent Street building would be moved to a third building on the site, which is almost empty.

The presentations last week came as Prudential, the insurance company, declared pnblicly that it would back the existing board. The management is also believed to have been encouraged by shareholder reactions to briefings.

NEWS DIGEST

## Albert Fisher dismisses report

Albert Fisher, the UK food group struggling to reverse a lengthy slide in its share price, has brushed off accusations of poor corporate governance. A report by Manifest, the proxy voting agency, queries the independence of two directors and highlights the involvement of Stephen Walls, executive chairman, in setting bonus targets for other executives.

Manifest points out that Ian Quinlan, finance director, was a partner with Ernst & Young, now the company's auditors, and that Ali Wambold, a non-executive director, is a founder and director of Corporate Partners, which owns 6.66 per cent of Albert Fisher's shares.

Albert Fisher described the questions over the two directors as "absolute non-starters", saying the two had been directors since 1988 and 1990 respectively.

The group said Mr Walls had given notice of his plan to take a non-executive role, once Albert Fisher has sold the rest of its seafood division and completed its capital restructuring. "For Manifest to raise this now is just irrelevant." *Andrew Edgecliffe-Johnson*

## Granada French M-way sale

Granada, the UK television and leisure company, will today announce it has sold its French motorway service stations for FFr820m ($139mm) to Autogrill, the Milan-listed roadside restaurant chain.

Còté France was acquired through last year's £3.9bn hostile takeover of Forte. The disposal follows the sale in February, for monopoly reasons, of Forte's Welcome Break chain of UK motorway service areas to Investcorp, the Bahrain-based investment group, for £476m.

Autogrill, which is controlled by Italy's Benetton family, is understood to have trumped offers by two other bidders for the 43-site chain. *Schehcrazade Daneshkhu*

## NatWest Equity in £38m buy

NatWest Equity Partners will today announce the £38m ($63.5m) acquisition of Artform International, a UK designer and manufacturer of retail displays.

Artform's existing management and David Martin, its new chief executive, are together investing £7.6m to take a 20 per cent stake. The name of the private vendor, who was also chief executive, was not disclosed, but be will remain as a consultant to the company.

Mr Martin said the company would look for acquisitions as well as organic growth, having recorded average annual growth of 20 per cent for the past five years.

Artform supplies "point of purchase" display units to customers including Boots, Cadbury and L'Oréal. Colin Stirling, an associate at NatWest Equity Partners, said the main appeal of the deal was growth in the point of purchase market. The company has a joint venture with a Parisian designer and a third of its turnover comes from exports to 17 European countries.

NatWest Equity Partners' Leeds office led the transaction, with senior debt facilities from NM Rothschild and mezzanine funding from ABN Amro Causeway Mezzanine. *Andrew Edgecliffe-Johnson*

## Gartmore wins mandates

Gartmore, the fund management company bought by National Westminster Bank some 18 months ago, has been awarded index-tracking mandates worth more than £180m ($301m) by pension funds. *Jane Martinson*

## COMPANIES AND FINANCE

# Volvo focuses on east Europe

By Haig Simonian, recently in Gothenburg

Volvo, the Swedish vehicles group, is to scale back its big growth plans for Asia and refocus short-term investment priorities on eastern Europe.

Leif Johansson, chief executive, said in an interview: "In the longer term, Asia is still our focal area. But in the next three to five years, there are many more opportunities in eastern Europe."

Volvo is one of the first large western companies with big ambitions in Asia to admit to a reappraisal after recent economic turmoil in the region. Under Soren Gyll, its former head, the group had said it wanted to exploit the immense potential for luxury cars and commercial vehicles in the region.

Mr Johansson, said Volvo remained positive on longer term prospects in Asia: "We would definitely look into any opportunities which might come up there". But recent events meant eastern Europe would take precedence now. "I have done a lot of business in eastern Europe and know the countries well. We are strongly encouraging our different divisions to go east"

He saw the biggest opportunities in commercial vehicles and construction equipment in view of infrastructure investment in the region. Volvo this year completed a truck and bus assembly plant at Wroclaw in Poland, and was considering both joint ventures and greenfield investments.

However, his preference was for new sites: "You have to accept that, when it comes to an existing structure, you buy into a culture which could be good, but which you may have to change eventually."

Separately, Mr Johansson dismissed recent press reports about links with Volkswagen of Germany: "Wa have no information or any indication that gives any substance to these rumours".

However, he confirmed discussions between Volvo, Mitsubishi Motors of Japan and the Netherlands government were proceeding well on buying the Netherlanda' stake in the NedCar passenger car joint venture.

NedCar – one of growing list of alliances between Volvo and Mitsubishi – has been viewed by some analysts as heralding closer links between the two companies which might eventually lead to a merger.

# Clouds begin to lift in Trustor fraud inquiry

For the past month, the Swedish police inquiry into an alleged SKr620m ($80.3m) fraud at Trustor, the quoted investment company bought by UK investor Lord Moyne in Juna, has raised more questions than answers.

The work of piecing together the transactions behind ona of the biggest scams at a Swedish listed company is not yet complete as prosecutors continne to unravel a complex weh of offshore bank accounts, shell companies and shady international dealing.

But with two Swedes in custody and some participants now willing to talk, the train of events is now becoming clearer.

At the fore is Lord Moyne, formerly Jonathan Guinness of the UK drinks family, who now admits to heing the "front" for a gronp of Swedes – among them a convicted fraudster. Lord Moyne confesses he lied about his motives for entering Trustor at the time he acquired his stake, maintaining then that he was acting on behalf of no-one but himself.

After being interviewed by Sweden's state prosecutor last week, Lord Moyne told the Financial Times he was helping fully with inquiries and was confident of clearing his name "with honour".

Speaking at the plush London offices of Guinness Management, the company he runs with Lindsay Smallbone, former Trustor chief executive, Lord Moyne declared himself so chastened that he would not "do any business again".

He traced his involvement in Trustor to Peter Mattsson, a Swedish former business associate now on remand in Stockholm. He says Mr Mattsson, Thomas Jisander – also now in custody – and Joachim Posaner, also known by the surnames Falk and Rolfsson, asked him to pose as figurehead for their purchase of Trustor. He was to be paid a fee for his services.

Lord Moyne believes the SKr240m cost of his stake was raised by Mr Posener, who earlier this year completed a prison sentence for fraud. It is thought to have been at least partly funded from Trustor's own assets.

Tha plan was to build stakes in a string of Nordic investments using Trustor's money. One target was Amer, the Finnish sporting goods gronp. The idea – again – was for Lord Moyne to pose as purchaser.

At the end of June, Lord Moyne lodged SKr293m with van Lanschot bank in Luxembourg to convince Amer's shareholders of his financial means. He now admits this money was not his, but was a two-day loan raised by his Swedish associates as "window-dressing". The purchase fell through, however, because Lord Moyne and his team aroused Amer management's suspicions.

The Guinness peer said he detected signs that things were not right with the way Trustor was being run hut "I kidded myself all the way through". Only when newspapers broke the story of the alleged fraud did the penny apparently drop.

At this point, he maintains, he acted swiftly to secure Trustor'a funds. Ha agreed to a plan by Mr Mattsson and Mr Jisander that he would personally deposit SKr417m at van Lanschot. The idea was to reassure investigators there was no hole in Trustor'a accounts and then withdraw the money two days later.

Lord Moyne said he then ordered the money to be kept at the bank beyond that date, in effect double-crossing the Swedes. Mr Smallbone, who also maintains he is the victim of a deception, said he attempted to transfer tha money to Trustor's account at Barclays in London to maka it "safe".

This plan was foiled, however, when Björn Björnsson, representing Trustor's minority shareholders, ordered van Lanschot to freeze the account. In spite of tha freezing order, it is unclear if the SKr417m remains in the account.

Mr Smallbone is bitter at his subsequent treatment by Trustor's minority shareholders. He was ousted from the board along with Lord Moyne last week and received a fax threatening him with "measures civil and criminal" unless he complied with minority shareholders' wishes.

"I have not gained personally from this," he said.

He stressed that it was he – not Trustor's new management – who sold Trustor's two automotive component subsidiaries for SKr890m, some SKr540m more than they were valned at hy auditors in September.

Mr Smallbone also pointed out the abiding irony of the Trustor case: that because of, rather than in spite of, Lord Moyne entering tbe scene, the company's net asset value has actually risen. When the shares, suspended for one month, restarted trading on Friday they surged 30 per cent.

**Greg McIvor**

Brendan Corr

Lord Moyne: admits to being front man in share deals

# Shake-up pushes Bezeq into red

By Judy Dempsey in Jerusalem

Bezeq, Israel's state-controlled telecommunications company, yesterday reported heavy losses for the first nine months of the year after taking a Shk1bn ($282m) write-off for a restructuring programme.

Net losses over the period amounted to Shk265.8m compared with a net profit of Shk493.7m last year. Operating income rose from Shk1.1bn to Shk1.12bn in spite of a decrease of Shk317.4m in operating income from the international telecommunications sector.

Earnings per share plunged to a loss of Shk0.36 compared with a gain of Shk0.67 over the same period last year.

The opening of the international telephone sector eroded profits, particularly over the third quarter. Compared with the same period last year, net profits fell from Shk161.9m to Shk148.3m and operating profits dropped from Shk430.1m to Shk312.6m.

Until recently, revennes from international calls accounted for nearly 30 per cent of Bezeq's total revenues which last year amounted to Shk8.3bn. Since the market opened last Jnly, Bezeq's market share has halved. Operating income from the sector over the third quarter has fallen by Shk225.4m compared with the same period last year.

Revennes over the nine months beld np, slipping from Shk6.50bn to Shk6.45bn.

The Shk1bn write off involves provisions for early retirement for 1,800 of the 9,000-strong workforce.

The state owns more than 62 per cent of Bezeq with the remainder held by Cable and Wireless, the UK telecoms company, Merrill Lynch, the US investment bank, and the public.

## INTERNATIONAL NEWS DIGEST

# Philcom pulls out of Piltel deal

Piltel, the Philippines' second largest cellular phone group, is facing financial pressure, following the decision by Philcom, a local telephone company, not to pay for its acquisition of a 20 per cent staka in the group worth 5.17bo pesos ($148.4m).

After an initial payment of 10 per cent of the purchase price, Philcom was due to pay the balance by the end of November. On Friday, citing "turbulent" market conditions amid the Asian crisis, it admitted it was not going to do so. Philcom had intended to raise funds for the purchase overseas but was informed by its banker that the underwriting agreement had been cancelled.

In a letter to Piltel, Jose Laraya, chief executive of Philcom, stressed the group still intended to proceed with the deal at a later date. "We believe that the current state of financial markets will not persist forever and at some point in the future when market conditions stabilise, we believe that funding can be raised for Philcom's acquisition of Piltel shares," he said.

The collapse of the deal was caused by the battering of the Manila stock market in recent months. When the two companies announced the deal in April, Philcom agreed to buy Piltel shares at 20 pesos each, a premium to the theo trading price of 14.25 pesos. The regional markets crisis, however has since slashed valuations. On Friday, shares in Piltel closed at 3.85 pesos, down 85 ceots.

Analysts warned the failure of Piltel to secure the cash injection left it dependent on PLDT, its major shareholder and the country's largest telecoms group, or the capital markets. Piltel was earmarking the funds for pre-paying short-term debts. The group has expressed confidence that PLDT will help its financing requirements.

Philcom's decision not to pay for the stake comes amid difficult times for Piltel. Profits in the first nine months slumped 68 per cent to 230m pesos after increased provisions for bad debts coming from delinquent subscribers.

*Justin Marozzi, Manila*

■ SPAIN

## Crédit Suisse arm fined

The Comisión Nacional del Mercado de Valores, Spain's stock market regulotor, has fined Crédit Suisse Financial Products of the UK Pta285m ($1.91m) in connection with share manipulation charges. The fine, one of the toughest levelled by the market watchdog, followed an inquiry into the sudden collapse on December 27 1995 of the Ibex-30 index, which represents Spain's most traded stocks.

The investigation centred on a swap operation with a fund managed by a leading Spanish bank that was backed by an Ibex index futures contract. *Tom Burns, Madrid*

■ PHARMACEUTICALS

## Schering sees record profit for year

Schering, the German pharmaceuticals company, announced a 25 per cent rise in the dividend payment for 1997, to DM2.50, as it forecast record profits for the year. It also said it would pass on DM70m to employees as part of a profit-sharing scheme.

Schering expects a more than 20 per cent rise in net profits for the full year. At the nine-month stage, net profits were DM350m ($198.4m), up 23 per cent. Full-year sales are expected to be about DM6.3bn.

*Frederick Stüdemann, Berlin*

# Anglo eases link with De Beers

By Kenneth Gooding, Mining Correspondent

Anglo American, South Africa's biggest company, is giving up its direct interest in sister company De Beers to reduce the chance that Anglo's global ambitions will be challenged by US anti-trust authorities.

De Beers is a target for the US authorities not only because it organises the international diamond producers' cartel but also because it has been accused of fixing prices of industrial diamonds with its rival, General Electric of the US.

Although the case two years ago was thrown out by a judge even before evidence was given for the defence, there is an indictment against De Beers still on the books. No senior executives of De Beers visit the US, even in a personal capacity.

Nicky Oppenheimer, chairman-elect of De Beers, said recently that De Beers had structured its operations in such a way as to never do business in the US, so the Justice Department would not have any jurisdiction over it. "There is a worry that, if a De Beers' director went to the US, the Justice Department might be able to serve papers on him and claim jurisdiction, so that's something we have to be careful about," he explained.

Mr Oppenheimer is also to be chairman of Anglogold, the vehicle into which Anglo is to put all the gold mines it manages to form the world's biggest gold producer. Anglogold hopes to acquire gold assests from Minorco, Anglo's Luxembourg quoted associate, including some mines in the US. If this goes ahead, it would result in an unusual situation: Anglogold's chairman would not be able to visit its US operations.

As part of the wider restructuring of Anglo American into core, focused companies, announced by the group last week, Anglo will sell its 7 per cent direct interest in De Beers to Anglo American Investment Trust (Anamint) for new shares, thus putting a buffer between Anglo and De Beers. Anglo will acquire from De Beers its 10 per cent interest in Anamint so ultimately Anglo will hold about 70 per cent of Anamint and Anamint 32.5 per cent of De Beers.

Michael Spicer, Anglo's public affairs adviser, said US anti-trust considerations were partly the behind this change, but there were also other reasons.

# Indian steel group tumbles

By Krishna Guha in Bombay

Soaring borrowing costs and a sharp rise in raw material prices savaged first-half profits at Steel Authority of India, the state-owned company which produces half of India's steel.

Pre-tax profits fell 87 per cent to Rp485m ($12.56m) in the six months to September 30. Volumes were up 7 per cent, but weak prices restricted revenues, up only 1 per cent at Rp86.3bn.

The company blamed a slump in demand from "major steel consuming sectors" and a lack of momentum on infrastructure projects. But it said it had made "significant gains" in exports – up from 157,000 tons to 482,000 tons after an aggressive marketing campaign.

It said it had absorbed a Rp5bn increase in coal, oil and freight costs, all of which are regulated by the government. A savage programme of "internal cost reduction" produced Rp3bn savings.

Total operating costs rose 4 per cent to Rp56.8bn, cutting operating margins from 18.2 per cent to 16.9 per cent.

The company was hit by a 35 per cent rise in interest costs to Rp7.2bn following a big increase in borrowing to fund modernisation. Depreciation charges rose 16 per cent to Rp3.7bn.

Analysts said tight cost control had kept Sail in profit. But the huge cost of modernising old plants would continue to depress results in the second half.

With India's government in turmoil there is little chance of a boost in infrastructure spending which could bail Sail out.

Moreover Sail's new found export markets – which accounted for almost the entire increase in sales – are highly vulnerable to price competition from east Asia. South Korea in particular is one of the world's biggest steel producers.

# AGF looked at buying GAN in defence move

By Andrew Jack in Paris

AGF, the French insurance group, considered buying the state-owned insurer GAN in an effort to block the hostile takeover bid launched against it last month by the Italian group Generali.

Executives hoped to accelerate the privatisation of GAN, which is scheduled to be sold by the middle of next year, combining it with AGF into a single powerful French insurer, according to AGF's chairman.

The acquisition would have replied to concerns that AGF and GAN separately were both too small to avoid takeover, but that together they might have been large enough and with a sufficient market capitalisation to prove too costly for Generali or other predators to buy.

However, Dominique Strauss-Kahn, the economics, finance and industry minister, concluded that the French state's privatisation rules – and the watchful eye of the competition authorities in Brussels – would have prevented such an accelerated sale.

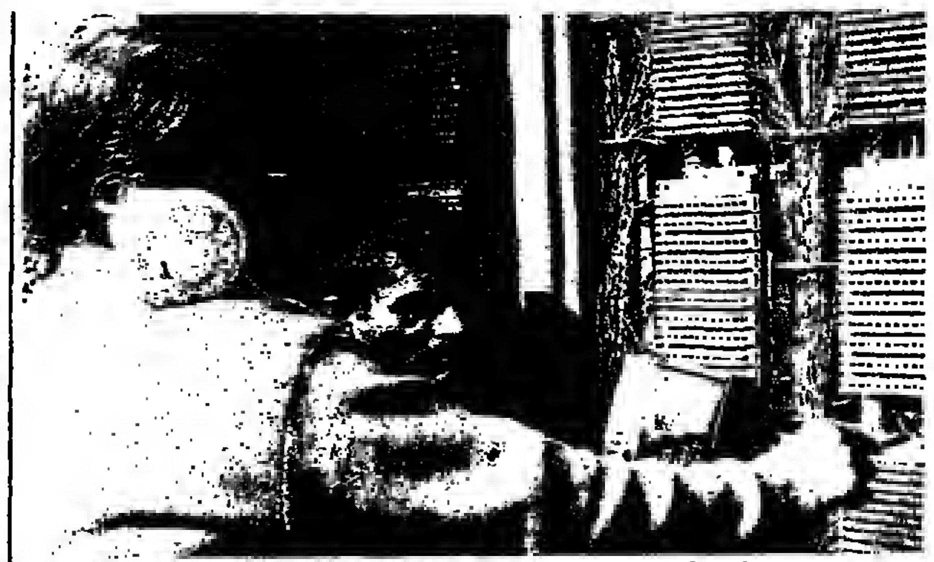
The episode sheds new light on the role of the French government in the AGF bid, which has been accused by some critics of deliberately slowing down the approval of the Generali bid to give AGF time to find a white knight. Mr Strauss-Kahn saya the ratification has only been held up because of the technical complexities.

AGF held discussions with a number of financial institutions in France, Europe and the US, in the search for a partner which would help finance the GAN acquisition in exchange for taking a 20 per cent stake in the combined group.

Long before the Generali bid, partly driven by an awareness of its relatively vulnerable position in the rapidly consolidating European insurance market, AGF had held talks with a range of possible partners about a bid for GAN.

It had also launched a formal complaint with Brussels, following the leak of an *internal memo written* by a civil servant in the EU competition body advising against the approval of AGF as the purchaser of GAN in a privatisation sale.

Some of GAN's property activities have been sold, and the formal offer document for CIC, its banking arm, is expected to be released in the next few days with the objective of a sale to single purchaser by early next year.



Focus now is on improving operational efficiencies and upgrading the infrastructure Reuter

# Increasing call volumes help VSNL to 45% rise

By Krishna Guha

Pre-tax profits at VSNL, India's international telecommunications company, rose 45 per cent to Rp6.35bn ($164.6m) *in the first half* thanks to a 24 per cent jump in core volume to 801m minutes of calls.

Operating income was up 22 per cent at Rp30.2bn, with growth in calls underpinned by the increasing number of Indian households owning telephones. This was augmented by a 91 per cent rise in other income, principally the invested proceeds of its $527m GDR issue. Analysts said the results exceeded expectations.

BK Syngal, chairman, said the company had achieved "strong volume revenue and profits growth". He said it would "*focus on constantly* improving operational efficiencies and upgrading our infrastructure".

Costs rose 18 per cent to Rp24.1bn while the operating margin rose 2.3 per cent to 20 per cent.

The number of VSNL's internet customers rose 275 per cent to 51,334 and specialist services – including the internet – now account for 6 per cent of revenues.

Incoming calls grew faster than outgoing calls with the incoming-outgoing ratio rising from 2.49 to 1 to 2.83 in the first half.

Greater telephone penetration in India is enabling more expatriate Indians – mostly in the US – to call their families back home. In the short term this is positive for VSNL – which under a revenue-sharing agreement within the department of telecommunications receives Rp10 per minute of conversation for all calls. But the widening gap increases pressure on India to reduce settlement rates paid by foreign carriers who route calls into the country.













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FINANCIAL TIMES
MARKETS
THIS WEEK



## Global Investor / Peter Martin

# Handy checklist for doomsday

What is the appropriate investment strategy for the end of the world? Two events in Japan summon this time-honoured conundrum to mind. One is the Kyoto conference on climate change, which raises the spectre of drowning cities and encroaching deserts; the other is the Japanese banking crisis, which creates the possibility of worldwide financial contagion.

In reality, of course, the most serious global consequences of each of these are unlikely to occur. But because the worst-case impact of each of these problems would be so very damaging, it is right to allot them some weight in deciding investment attitudes.

The correct response to the imminent arrival of the end of the world would be to abandon investment altogether, and focus on consumption. Price/earnings ratios would collapse, as future earnings would be of no value. Today's fish paste would be worth infinitely more than tomorrow's unattainable caviar.

It is a lesser version of this shift in attitudes that is the most worrying implication of the Japanese financial crisis. As the chart shows, Japanese equities have been relatively stable since their big drop in 1990, reflecting an implicit belief that, whatever the short term problems, in the end things would sort themselves ont. The economy would start to grow bealthily again, bad debts would be gradually written off, there would be enough structural reform to revitalise the corporate sector, but not enough to destabilise it in the process.

Events this year – starting with the poor economic response to the spring tax increase, and culminating in the south-east Asian crisis and the collapse of Hokkaido Takushoku bank and Yamaichi – have destroyed that consensus. The conventional framework of value has disappeared along with it.

Faced with the small but real possibility of a widespread collapse of the Japanese financial system, it is impossible for investors to put a value on the future streams of earnings from most Japanese companies. Though the biggest and most international companiee retain ratings broadly comparable with their overseas rivals, most other businesses are trading below book value. The markets may not be discounting the end of the world – but they are certainly discounting the end of the world as we know it.

How should international investors react? The bullish approach would he to increase exposure to well managed domestically oriented Japanese companies – outside the financial sector – on the grounds that the political obstacles that have prevented a Japanese government bail-out of the banks are vanishing. A rescue package for the banking system which wae blg enough to wipe out past bad debts would remove much of the uncertainty, allowing growth to begin again.

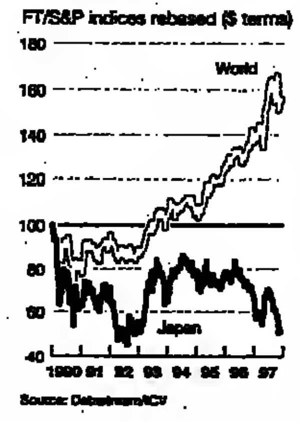
The more pessimistic investor would ask whether the framework of value will reappear in Japan at any time soon – and whether comparable oncertainty may spread to other markets.

In the short run, however, the main impact on western markets is likely to be via interest rates. Flooding the Japanese market with liquidity will push interest rates down even further there. Inflation in Europe and the US will be held down by cheaper imports from devalued and deflating Asia. Central banks in these economies will be less worried about inflation, and more worried about systemic risks, than they were even three months ago. For the time being, therefore, tbe Asian crisis will, perversely, act as a prop to values elsewhere.

But there is another lesson to bear in mind, this time from the other end-of-the-world risk, climate change. The dangers addressed at the Kyoto conference are beyond the time horizon of most investors. From an investment point of view, therefore, the risk is not so much of long-term climactic disaster, but of short-term threats to growtb from the measures taken to avoid it.

A similar argument applies to Japan's financial crisis. Investors need to take into account not just the remote possibility of systemic collapse but also the implications of the measures likely to be taken to prevent it. As long as the impact of Japanese government policies remains largely domestic – in the form of a transfer from future generations of taxpayers to those bankers who extended unwise loans during the bubble – they are of little consequence to the rest of the world. But if they result, intentionally or as a side-effect, in a sharp devaluation of the yen or a fire-sale of Japanese-held assets around the globe, investors will not be able to view them with such insouciance.

**Japan's slide**




Source: Datastream/ICV

**Total return in local currency to 27/11/97**

| | % change over period | | | | | |
|---|---|---|---|---|---|---|
| | US | Japan | Germany | France | Italy | UK |
| **Cash** | | | | | | |
| Week | 0.11 | 0.01 | 0.07 | 0.07 | 0.12 | 0.14 |
| Month | 0.47 | 0.04 | 0.29 | 0.29 | 0.56 | 0.6 |
| 12 months | 5.69 | 0.53 | 3.34 | 3.56 | 6.69 | 6.94 |
| **Bonds 3-5 year** | | | | | | |
| Week | -0.05 | 0.2 | 0.26 | 0.21 | 0.32 | 0.51 |
| Month | 0.31 | 0.37 | 0.61 | 0.78 | 1.37 | 0.43 |
| 12 months | 6.6 | 4.31 | 4.4 | 4.21 | 11.45 | 7.91 |
| **Bonds 7-10 year** | | | | | | |
| Week | -0.16 | 0.00 | 0.55 | 0.41 | 0.83 | 0.56 |
| Month | 0.83 | -0.35 | 1.68 | 1.57 | 2.62 | 0.51 |
| 12 months | 7.59 | 8.37 | 9.09 | 7.98 | 20.36 | 12.07 |
| **Equities** | | | | | | |
| Week | -0.7 | 0.7 | 0.7 | 0.7 | 0.2 | -0.2 |
| Month | 8.3 | -5.0 | 1.0 | 3.3 | 0.8 | 0.9 |
| 12 months | 28.5 | -18.9 | 38.7 | 27.8 | 56.5 | 22.8 |

Source: Cash & Bonds - Lehman Brothers. Equities-© FT-Email Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

**COMPANY RESULTS DUE**

## Stand-alone Imperial likely to top £300m

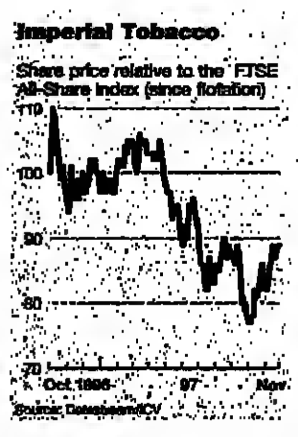
Imperial, number two in the UK cigarette market and maker of the Embasey brand, is expected to report profits of about £308m ($514.4m), against £281m, today for the first full year since it was spun off from conglomerate Hanson. The integration of the Rizla cigarette papers business acquired in January is understood to be progressing well. But the group has faced tough competition from Gallaher against the Lambert & Butler brand at the lower end of the price range, while its share of the French market slumped earlier this year after the French government froze cigarette prices.

■ Scottish & Newcastle will report interim pre-tax profits of about £220m today, up almost 13 per cent on last year's £195.1m. The brewing and pubs group has digested the acquisition of Courage, made two years ago, and is working hard to win new sales ahead of the end next year of its supply agreement for the Inntrepreneur pnb chain. Things are improving at the underperforming Center Parcs holiday villages, but there appears little sign of a buyer willing to take them on.

■ Interim results tomorrow from Siebe, the engineer, should show good profit growth despite the strong poond depressing turnover by 10 per cent. The shares have been volatile as some analysts expressed concern that it has lost focus by growing through acquisition. The figures will be watched for evidence that last year's purchase of Unitech, the controls business, is paying off. Merrill Lynch expects pre-tax profits of £220m (£190m), earnings of 27p (24p) and a 5.4p (4.9p) dividend.

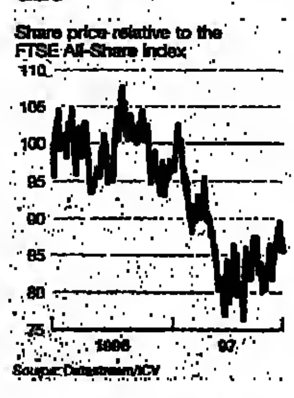
■ It is unclear whether Allied Colloids, the speciality chemicals maker which has become a target of a £1.07bn hostile bid, will release its interim results tomorrow. The company is preparing its defence document again Hercules, the US chemicals manufacturer, and said it might choose to postpone the release of its figures. Martin Evans, analyst at Sutherlands, is forecasting a 56 per cent rise in pre-tax profits to £33m because of last year's acquisition of CPS. Hercules has accused Allied's management of eroding shareholder valne because of poor return on capital, and Allied will have to prodnce figures which indicate otherwise.

**Imperial Tobacco**




Source: Datastream/ICV

**GEC**




Source: Datastream/ICV

■ Stagecoach, the train and bus company, is expected to show good progress across all four divisions when it unveils interim results tomorrow. NatWest Markets expects the company to produce operating profit more than doubled to £104.9m and normalised pre-tax profit also more than donbled to £76.4m.

There may be some disappointment stemming from the bus war with FirstBus in Scotland although the Porterbrook rolling stock company should do well. There may also be views from the company on the possibility of the government extending regulations to include the roscos.

■ Full-year pre-tax profits at Bass, announced on Wednesday, are expected to rise 9 per cent before exceptionals to £730m (£671m). Exceptional items will include a write-down of its Gala bingo assets and a net loss of about £35m on the sale of its 50 per cent stake in Carlsberg-Tetley after a merger was vetoed by Margaret Beckett, trade and industry secretary.

The failure to acquire Carlsberg-Tetley and the William Hill betting shop chain has left Bass with low gearing – raising expectations of a share buy-back or alternative acquisitions.

■ Great Universal Stores' results on Thursday are expected to be clouded by what NatWest Markets has called "an unusually complex array of one-offs". Acquisitions and disposals and tbe forecast for the Experian subsidiary make estimates difficult, while the uncertain effect of currency is also a factor. NatWest expects tbe six months to September to produce a 27 per cent rise in operating profit to £243m on sales up 28 per cent at £1.54bn.

■ Grand Metropolitan's last figures before its merger with Guinness are due on Thursday. It is expected to reveal full-year pre-tax profits up marginally to £975m (£965m), despite strong underlying growth.

Sterling's strength reduced first-half profits by £28m and a trading statement in September warned of more to come. There will also be a further exceptional charge of £22m from the sale of the European food businesses.

No final dividend will be declared. After the merger, Diageo will pay an interim dividend of 12.5p in April, enhanced to reflect tbe change of year-end.

■ The interest in GEC's interim results on Thursday will concentrate on corporate activity rather than tbe figures. Investors are hoping for news of a possible £4bn flotation or demerger of the GEC Alsthom joint venture, or of the sale of its 60 per cent stake in GPT to Siemens, the £1bn telecoms business's minority shareholder.

NatWest Securities expects pre-tax profits little changed at £430m (£426m), with earnings of 9.8p (5.5p after exceptionals) and a 3.42p (3.26p) dividend.

**INTERNATIONAL EQUITIES** [illegible] Paulo

# Turmoil delays Brazilian offers

Brazil's privatisation programme, currently the biggest in the world, has been dominated by trade sales, leaving little to interest eqmity investors. Just as this was set to change, the crisis on world capital markets is threatening to force the government to postpone – or even cancel – some big offers.

Hardly a week has gone by in recent months without another chunk of the country'e public sector coming under the hammer. Sales by federal and etate governments of railways, port terminals, banks, insurers, mining assets and electricity companies have netted about R$17bn this year; the planning ministry reckons sales of electricity and telecommunications assets due next year will raise R$80bn.

Faced with the political choice of realising the highest possible prica through trade sales, or – as Brazilians have it – of "democratising" ownership through share issues, both federal and state governments have tended to opt for the former. In most cases, however, their plans have included a subsequent secondary offering on stock markets.

Now the government plans to offer 31.5 per cent of voting stock in Companhia Vale do Rio Doce, the world'e biggest iron ore mining company, in the last week of January. This follows the sale of a 42 per cent stake in CVRD in May for R$3.34bn.

It is scheduled to be followed by offers of minority stakes in Light, a Rio de Janeiro electricity distributor privatised in June 1996 for R$2.26bn, and in Petrobrás, the petroleum group, although the government has no plans to privatise Petrohrás ontright. At the same time, state governments are studying similar sale models for their assets, particularly in electricity distribution and generation.

Current interest is focused on the state of São Paulo, which last month began the privatisation of electricity assets worth about R$20bn with the sale of a controlling stake in CPFL, a distributor covering the interior of the state, for R$3bn. A minority stake is dne to be offered at the end of the first quarter of 1998.

São Paulo is also preparing to sell Cesp, a generator, and Eletropaulo, a distributor serving the state capital. There had been talk that Cesp would be sold entirely through a public offer. The state government, perhaps inspired by the recent success of similar operations in Spain and Portugal, was kean to encourage local investors to take part in the sale, hoping this would lift its own standing and reduce popular opposition to privatisation.

Under present market conditions – described by one government adviser as "the most difficult I've ever seen" – this option now seems certain to be discarded. Other minority offers, including that of CVRD, are likely to be postponed. However, the successful sale of CPFL gives good reason for sellers to continue using the same model. It took place during the first week of the current market turbulence, yet still raised a premium of 70 per cent to its minimum price. Two other states have since carried out similarly successful utility sales.

Comparing such successes with the recent performance of Brazilian stocks – which have lost about a third of their value in the past month – governments will be wary of launching public offerings in the next few months. The one crumb of comfort is that premiums being paid for controlling stakes by long-term investors should do something to underpin prices when the offers do come to market.

# MARKETS: This Week

## NEW YORK By Tracy Corrigan

Treasuries have benefited from the flight to quality following the failure of Yamaichi, the Japanese securities firm, 10 days ago, but as the market gets back in gear after the Thanksgiving holiday, traders will watch to see whether sentiment continues to prevail over fundamentals.

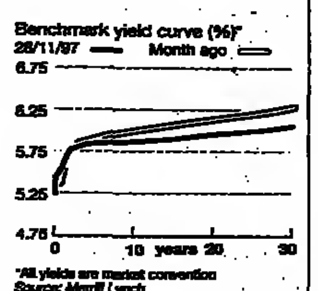
The recent rally in Treasuries, pushing 30-year bond yields to just above 6 per cent – in spite of continuing domestic economic strength – caused Salomon Brothers to ask in its latest research paper: "Do US bonds have diplomatic immunity?"

Some analysts fear the liquidity problems in Japan will lead to large sales of US Treasuries, although there has been little sign of this so far. Some argue the Japanese authorities will sell Treasuries to put downward pressure on the dollar while others believe that the relatively high yields on US securities to those of Japan will help protect Treasuries.

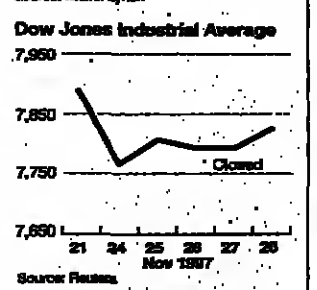
Among this week's data are the Beige Book on Wednesday, and employment numbers on Friday. US unemployment is at its lowest level for 25 years. According to Liro: "The market's evident complacency with respect to Fed policy could finally be challenged by another outsized payroll increase."

Salomon Brothers also highlights the National Association of Purchasing Management's (NAPM) survey of manufacturing conditions in November, due on Monday.

"So long as investors focus on the prospective economic slowdown in 1998, bond yields probably will drift lower," predicts Robert DiClimente in Salomon's latest fixed income research.



*All yields are market convention
Source: Merrill Lynch



Source: Reuters

## LONDON By Philip Coggan

The main domestic event of the week will undoubtedly be the latest meeting of the Bank of England's monetary policy committee. The money markets are looking for another couple of base rate rises before it peaks, although not necessarily at this meeting.

Sanjit Maitra, head of economics and strategy at WestLB, said: "We expect the MPC not to change monetary policy in December or January. The recent trade data suggest that some slowing in growth – however modest – from net exports is on tha cards. On the domestic front, there has been no new evidence suggesting further unexpected strength in spending."

It will be hard, as usual, to stop investors from keeping one eye firmly trained on overseas.

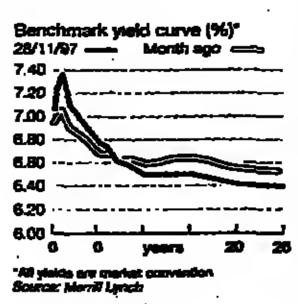
The financial problems of Korea and Japan are a recurring worry, with some concerned that Japanese investors might repatriate their overseas holdings.

The other main issue will be the prospects for an interest rate rise in the US, and the non-farm payroll figures on Friday will have their normal potential to move the markets.

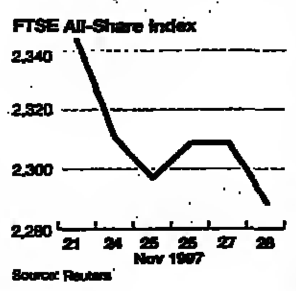
Many analysts suspect that the Federal Reserve would have raised rates in November but for the Asian crisis.

The corporate sector has been kept busy with takeover deals in the past fortnight and further bid speculation will provide some support to the UK market.

There are also a spate of results to consider; Bass, Carlton, GEC, Grand Metropolitan, GUS, Imperial Tobacco, MEPC, Scottish & Newcastle and Siebe are among those reporting.



*All yields are market convention
Source: Merrill Lynch



Source: Reuters

## FRANKFURT By Andrew Fisher

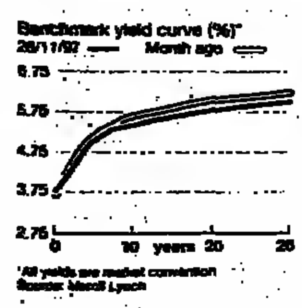
Hopes of a year-end rally in German equities have seen the Dax blue-chip index nudging the 4,000 mark, with traders seeing a strong possibility it will be passed this week. Volume was low on Friday after the US holiday, with the market also adjusting to Xetra, Frankfurt's new electronic trading system.

Although events in Asia continue to cause concern, investors have taken heart from the slow advance by European and US markets. Low interest rates – and the expectation that they will remain low as central bankers seek to exert a calming influence – and the renewed firmness in the dollar are helping to underpin the German market.

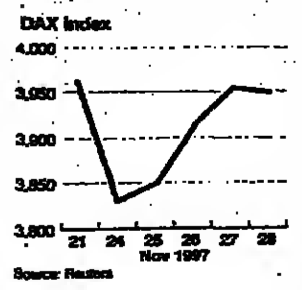
Strong earnings statements from leading German companies have also helped bourse sentiment. Attention this week is likely to focus on macro-economics, with third-quarter gross domestic product figures due on Thursday. These are expected to show quarter-on-quarter growth of about 1 per cent, similar to the previous three months.

J.P. Morgan expects year-on-year GDP growth of about 2.6 per cent, in the fourth quarter, however "the rate of growth is sure to slow from the torrid pace of the past two quarters" to an estimated 2.3 per cent.

Also due this week are October industrial production figures. With new orders showing a positive trend, UBS Global Research expects manufacturing output to have risen 2 per cent over September. Total industrial production is likely to be less buoyant as a result of the weak construction sector.



*All yields are market convention
Source: Merrill Lynch



Source: Reuters

## TOKYO By Bethan Hutton

Japan's markets are expected to be a little calmer this week. The rash of failures in the financial sector during November shook the stock market, but by the end of last week there were strong signs that the government was working on plans to use public money to help the banks. The Nikkei 225 average ended the week only marginally below the previous week's close, while bond yields rose.

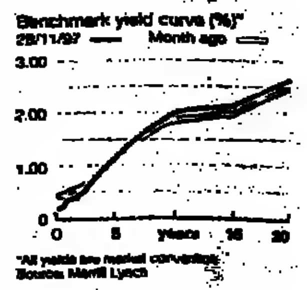
This week, both stock and bond markets will be watching for more details of those proposals.

The government is also due to announce further economic stimulus measures on December 10. These could include details of plans for the financial sector, so there may be an element of wait-and-see keeping tha Nikkei within a narrow trading range this week.

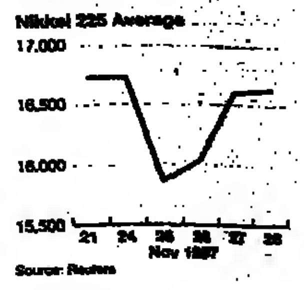
However, in spite of official reassurances, many observers are not ruling out further collapses of banks or brokerages over the next few weeks, as money market conditions continue to worsen for the weaker institutions. Any further failures would be likely to knock the Nikkei back down towards 15,000.

Attention may shift to the state of the economy this week. Gross domestic product figures for the third quarter are due out on Wednesday, and a revision of the second-quarter figure – a 2.9 per cent drop – is possible. The average expectation for the third quarter is for growth of about 1.5 per cent, although some economists are much more pessimistic.

Other statistics due out this week include vehicle registrations for November, due today, and household spending for October, on Thursday.



*All yields are market convention
Source: Merrill Lynch



Source: Reuters

## OTHER MARKETS Compiled by Jeffrey Brown

### PARIS

French shares showed little net change last week in line with the trend across Europe. Trading was narrow – the CAC 40 index swung within an arc of just 13 points on Wednesday – but there were plenty of sharp price movements among individual sectors.

The protracted Opec negotiations on output ceilings cast a cloud over the heavy-weight oil stocks. Both Elf Aquitaine – down 6 per cent – and Total fell steeply as talk turned to a possible 10-20 per cent decline for the oil prices should Opec raise its ceilings. Brokers are uncertain about the sector's short-term outlook.

Retailers looked to be a clear beneficiary of investors switching out of oils. There were strong gains, too, for financials following Paribas' move to buy in the minorities in two big satellite operations.

The deals stand to dilute Paribas' earnings by 8 per cent next year, but are widely seen as positive for shareholder value. UBS has lifted its 18-month price target to FFr600, almost 50 per cent above the present level.

### HONG KONG

Hong Kong share prices are expected to drift lower this week in the face of the financial problems in Japan and Korea and a gloomy property outlook at home, *writes Louise Lucas in Hong Kong*. Last week's decision by Cheung Kong, the property developer, to slash property prices at its new luxury development spooked investors by signalling deeper weakness in property prices.

The Hong Kong market has also seen volume dry up in recent weeks. On Friday, daily turnover contracted to HK$6bn (US$776m), compared with a record HK$46bn in August. Brokers say investors are cautious so long as there is a possibility of a rise in interest rates and a perceived flight away from Asian markets.

The same turmoil which has eroded the value of currencies and stock markets throughout Asia is anticipated by some investors to hit China, forcing a currency devaluation. This concern has seen the China sectors, H shares and red chips, come under heavy selling pressure.

### LISBON

The Lisbon market had another solid week, with tha PSI index rising 3.4 per cent to close at 8,309.21 on Friday.

The market's strength has little to do with underlying fundamentals, however, and mainly reflects hopes of increasing foreign investor interest after Portugal joins the Morgan Stanley index of developed markets today.

Morgan Stanley announced during the privatisation of electricity utility EDP in June that it would upgrade the country at the end of the year. The announcement, which encouraged foreign investors to take EDP shares, helped make the sale a success.

"Portuguese investors are speculating that foreign investors have yet to vector Portugal into their asset allocations," said Paulo Araujo at Schroders.

## CROSS BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Lafarge (France) | Redland (UK) | Building materials | $3bn | Now agreed |
| Philip Services (Canada) | Safety-Kleen (US) | Waste | $1.9bn | Rival trumps |
| Hercules (US) | Allied Colloids (UK) | Chemicals | $1.8bn | Hostile bid |
| *ACX Technologies (US)* | *Britton Group (UK)* | *Plastics & Packaging* | *$337m* | *Recommended* |
| Standard Chartered (UK) | Extebandes (Int'l) | Banking | $165m | LatAm expansion |
| Airtours (UK) | Sun Int'l (Belgium) | Travel | $119m | 1st stage done |
| Hall Engineering (UK) | BRC Weldmesh (S'pore) | Engineering | $78m | Reorganising |
| David Brown (UK) | Union Pump (US) | Pumps | $64m | Highly geared |
| *UBS (Switz)* | *Alfi Gestion (France)* | *Financial services* | *$61.4m* | *Needs gov't OK* |
| National Grid (UK)/ MPI (UK) | Unit of ZCM (Zambia) | Power | $50m | 80% each |



**ATHENS STOCK EXCHANGE November 24th - November 28th 1997 GREECE**

| | | | | | |
|---|---|---|---|---|---|
| ASE INDEX | 1474.02 | P/E (after tax) 97e/96 | 16.5/19.1 | GDP (USD bn) 97e | 117.82 |
| %Chg (31/12/96) | 57.91 | EPS GROWTH (%) 97e | 16.3 | Per Capita Income (USD) | 11,329 |
| Yearly High | 1606.85 | P/E 97e / EPS GROWTH (%) 97e | 0.85 | Inflation Rate (% Y.O.Y. October '97) | 4.70 |
| Yearly Low | 932.38 | P/CE 97e/96 | 12.9/15.6 | November 12 M T-Bill rate (%) | 11.70 |
| WEEKLY VOL (USD m) | 347.03 | P/BV 97e/96 | 2.7/3.7 | 1-Month Athibor (%) | 14.45 |
| %Chg (Prev. Wk) | -27.56 | Div. Yield (%) 97e/96 | 3.6/3.0 | GRD/US$ (November 28, 1997) | 277.05 |
| 1 Y Wk Avg Vol. (USD m) 382.37 | | | | A.S.E. Market Capitalisation - 28/11/97 (USD bn) | 34.64 |
| | | | | IPOs & Rights Issues (in USD m) Jan 1 - November 28 '97 | 1,778.17 |

## CONTRACTS & TENDERS

**REPUBLIC OF POLAND**
**The Ministry of Treasury**

**The Minister of Treasury**

invites

tenders for advisory services in the public sale of
**Polish Telecom Inc.**
**Telekomunikacja Polska Spólka Akcyjna**

The executor chosen under the two-stage tender, will be responsible for work related to the public offer of stock which includes the following activities:

1) preparing the valuation of the company;
2) preparing the analysis of the company;
3) preparing prospectus of the company and other documents required by the law;
4) preparing the preliminary offering circular;
5) preparing and conducting of the company's stock sale;
6) conducting the promotion of the company's stock sale.

The detailed scope of work of the executor is included in Terms of Reference, which can be available at the Ministry of Treasury (Department of Privatisation and Restructuring, room 461).

The offers should be submitted in the sealed envelope at the Ministry of Treasury, room 477, 36 Krucza Street/6 Wspólna Street, not later than until 3.00 p.m. (Warsaw time) on 29th Dec 1997.

## COMMODITIES By Maggie Urry

# Conference to address future of the CAP

Reform of the Common Agricultural Policy is now the hot topic in the European food and farming industries, as the Agenda 2000 proposals drafted by the European Commission in the summer have been accepted in principle by most member states.

On Wednesday a conference in London will address the history and future of the CAP, in the context of reform, of the coming enlargement of the European Union and world trade talks.

The conference, being organised by Agra Europe, is billed as a practical introduction to the CAP. The CAP, which takes about half the EU budget each year, is regarded as the most complicated policy ever to have emerged from Brussels.

Its influence extends across European agriculture and beyond as Brussels controls prices of exports from the community. While the organisers promise to avoid technical language, the intricacies of the agrimonetary system and the single European currency will be addressed.

Delegates may want to ask how UK farmers and food companies will be affected when the single currency begins with sterling still outside. Many fear that this will disadvantage the UK if the pound retains its strength against the new euro.

Also a question for debate may be the impact of the next round of world trade organisation talks, due to begin in 1999, on the CAP. It is debatable whether the Agenda 2000 proposals are compatible with the likely outcome of the WTO talks.

The afternoon session is devoted to a more detailed look at the Agenda 2000 proposals and how they affect the three agricultural product regimes where changes are to be made. These are cereals, dairy and beef.

Under the proposals, support prices for cereals will be cut by 20 per cent, for dairy products by 10 per cent and for beef by 30 per cent. However, farmers will receive compensation payments.

The conference will also cover rural development, agriculture and the environment, animal welfare and the fraught issue of genetically modified foodstuffs.

## CURRENCIES By Wolfgang Münchau

# Interest likely to focus on dollar/yen rate

Currency strategists hope that the Thanksgiving holiday will bring a quieter period to the foreign exchange markets, at least until the end of the year.

One of parities they are bound to keep a watchful eye over is the dollar/yen exchange rate. The dollar ended last week at Y127.6, although this rate overstates the yen's weakness on a trade-weighted basis.

This is seen as a particularly difficult time to predict the dollar/yen rate because of opposite pressures.

On fundamental grounds, the yen looks weak. But analysts remind themselves of 1995, when the dollar/yen rate changed from Y105 to about Y80 within two months because of repatriation of Japanese capital.

Some are wondering whether the same could be happening again. Tony Norfield, currency strategist at ABN-Amro in London, said he was focusing on two related aspects: the degree to which Japanese capital would be repatriated as a result of the Yamaichi crisis; and the ability of Japanese investors to maintain a steady net outflow of capital – a capital account deficit – to balance the structural current account surplus.

The degree to which investments are repatriated has been fairly haphazard. There have been sharp movements in a number of currencies as a result of Yamaichi assets sales.

"Most Japanese assets are held in US dollars, but still a significant amount is held in other currencies. There is no reason to think that the dollar will be sold rather than other currencies. One reason for the recent dollar/D-mark increase is the selling of Japanese assets in Germany," Mr Norfield said.

The second point is more subtle. Japanese borrowers face a hefty premium for loans of up to one percentage point above the London Interbank Offered Rate (Libor) because of the banking crisis.

In view of the interest rate premium faced by Japanese borrowers, they might find it harder to maintain a sufficiently strong capital account deficit.

The problem, of course, only arises for investors who borrow to invest. It does not affect cash-rich investors, such as life assurance companies, to the same extent.

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 28, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 8002.80 | 4750.00 | 2692.90 | 3721.84 |
| Albania | (Lek) | 192.810 | 114.500 | 64.9130 | 89.7160 |
| Algeria | (Dinar) | 97.4687 | 57.8458 | 32.7943 | 45.3246 |
| Andorra | (French Fr) | 9.9462 | 5.9035 | 3.3469 | 4.6256 |
| | (Sp Peseta) | 251.246 | 149.125 | 84.5462 | 116.846 |
| [illegible] | | | | | |

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Gibraltar | (Gib £) | 1 | 0.5936 | 0.3365 | 0.4651 |
| Greece | (Drachma) | 466.328 | 276.785 | 156.921 | 216.874 |
| Greenland | (Danish Krone) | 11.3123 | 6.7143 | 3.8068 | 5.2610 |
| Grenada | (E Carib $) | 4.5490 | 2.7000 | 1.5307 | 2.1156 |
| Guadeloupe | (French Fr) | 9.9462 | 5.9035 | 3.3469 | 4.6256 |
| [illegible] | | | | | |

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Pakistan | (Pak. Rupee)(4) | 74.1413 | 44.0060 | 24.9488 | 34.4807 |
| Panama | (Balboa) | 1.6848 | 1 | 0.5669 | 0.7835 |
| Papua New Guinea | (Kina) | 2.8104 | 1.6681 | 0.9457 | 1.3070 |
| Paraguay | (Guarani) | 3757.11 | 2230.00 | 1264.24 | 1747.31 |
| Peru | (New Sol) | 4.5861 | 2.7220 | 1.5432 | 2.1328 |
| [illegible] | | | | | |

**MARKETS:** This Week

**INTERNATIONAL BONDS** By Gwen Robinson

# Tokyo moves to restore confidence

The recent panic in offshore Japanese government bond markets following the collapse of Sanyo Securities and Yamaichi Securities highlighted glaring anomalies in Japan's JGB trading system: namely the arcane withholding tax system.

In the aftermath, mounting pressure on the government has led to new moves to reform the withholding tax system. But the long overdue momentum on withholding tax reform has come at a time of growing concerns about a liquidity squeeze in JGB markets.

Financial authorities, trying to restore confidence in Japan's markets, now face the dilemma of balancing protective regulatory measures and support in a market which is crying out for further deregulation. Even if they get it right, the question is whether investors will still find JGBs attractive in an environment of declining market liquidity.

The problem triggered by the collapses stemmed from Japan's system of "settlement kabuki", a device that enables non-residents to trade JGBs in "street names" of Japanese institutions to sidestep withholding tax. Under this convention, most offshore buyers of JGBs do not become the registered owners. Rather, they trade JGB name registration forms (NRFs) with the bond remaining legally registered to the NRF issuer.

The recent upheavals triggered fears about the implications of being delivered JGBs registered in the failed brokers' names. London took one of the biggest hits, with the JGB market plunging on the rumours.

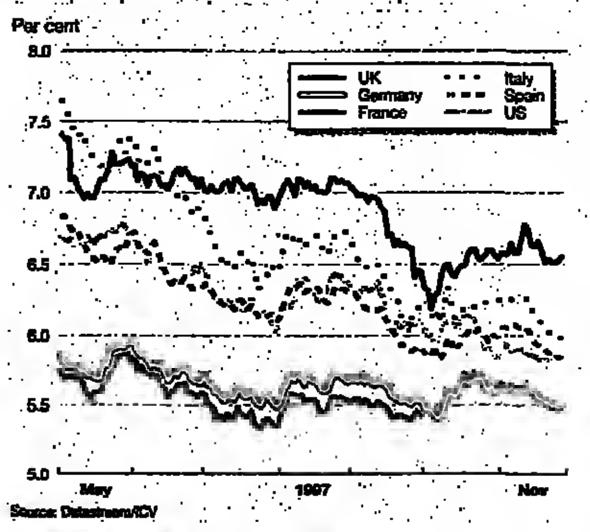
Reassurances from both Sanyo and the finance ministry helped calm the bond cash and repo markets, which were relatively quiet last week after massive support operations by the authorities left a record surplus of Y3,700bn in the money markets.

But even with the Bank of Japan's stated commitment to continue supporting the market, investors are increasingly sceptical of how long the central bank can sustain such operations.

While JGB dealers welcome any suggestion of withholding tax reform, the scare could not have happened at a worse time. The benchmark 10-year bond has been fluctuating around a yield of between 1.6 and 1.8 per cent in the past month, reaching record lows in the process. But even at the heights of their record-breaking performance, JGBs were showing signs of reaching the end of their long bull run.

Foremost are growing fears of a looming liquidity squeeze in the JGB market and the creeping paralysis of many hitherto active players, now facing crippling premiums to borrow funds in international markets.

**10-year benchmark bond yields**




Source: Datastream/ICV

**INTEREST RATES AT A GLANCE**

| | USA | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| Discount | 5.00 | 0.50 | 2.50 | 3.30[1] | 6.25 | 7.25[2] |
| Overnight | n/a | n/a | 4.25 | 3.31 | 6.31 | n/a |
| Three month | 5.20 | 0.15 | 3.70 | 3.47 | 5.97 | 7.45 |
| One year | 5.49 | 0.34 | 4.03 | 3.83 | 5.31 | 7.45 |
| Five year | 5.82 | 1.13 | 5.05 | 4.93 | 5.49 | 6.78 |
| Ten year | 5.86 | 1.96 | 5.45 | 5.46 | 5.95 | 6.49 |

(1) France-intervention rate. (2) UK-Base rate. Source: Reuters.

Dealers had long been warning of a repeat of last year's short squeeze in the JGB market, when large players moved to drive up the price of the cheapest deliverable bonds against the September 10-year bond futures contract, taking advantage of the unusually small issue sizes. This time around, hedge funds are believed to have bought massive amounts of JGBs 175 and 176, the cheapest deliverable against the December futures contract.

Japan is more vulnerable to short-squeezes of this nature for a variety of reasons. A key factor is the "no-fail" rule in JGB trading.

The no-fail tradition perpetuates the rigid structure of the JGB market and its vulnerability to manipulative trading. Under a system which requires payment ahead of delivery and trades to be settled all at once at day's end, a failed trade could trigger knock-on effects throughout the settlement system. For offshore investors, such anomalies are compounded by onerous procedures to avoid withholding tax.

Reforms in the JGB settlement system have streamlined the settlement cycle from the original arbitrary settlement date calendar to a T + 3 rolling settlement of three-day cycles.

But the shorter settlement cycle only increases risk and the likelihood of fails in a system which makes no allowances for human error.

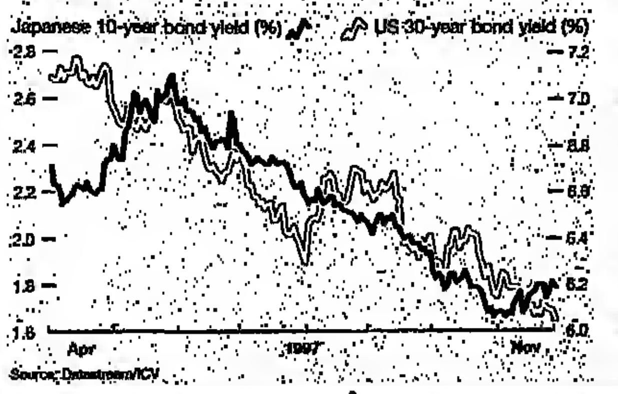
Concerns about the impending short squeeze escalated in recent weeks, as liquidity drained from the JGB cash and repo markets and large Japanese investors scaled back their operations.

In desperate attempts to support the markets and ward off a liquidity crunch, the government has called in foreign brokers several times to warn them against manipulative trading practices.

In a more concrete move which suggests regulatory intervention may be down the line, the Tokyo Stock Exchange is planning this month to launch a new position-reporting system. For the first time, members will be required to report any large net position in JGB futures and options. Members will also be required to reveal their clients' names and addresses. The reports must be submitted weekly until the month of expiry, and daily thereafter until the contracts expire.

Such steps, together with sustained support by the central bank, may head off the predicted December squeeze. In the longer term, however, much will depend on the government's ability to push through reforms.

**US and Japan bonds**




Source: Datastream/ICV

**NEW INTERNATIONAL BOND ISSUES**

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| European Investment Bk(a) | 250 | Oct 2002 | 6.125 | 100.339R | - | +18(5¾Oct02) | ABN Amro H&Merrill |
| MSC, Class A(c1) | 55.5 | Sep 2029 | 6.85 | 99.9711 | 6.820 | +110(j) | Morgan Stanley DW |
| MSC, Class B(c2) | 75.7 | Sep 2029 | 7.31 | 100.7084 | 7.233 | +145(j) | Morgan Stanley DW |
| MSC, Class D(c3) | 85.7 | Sep 2029 | 7.65 | 96.8072 | 8.280 | +245(j) | Morgan Stanley DW |
| MSC, Class F(c4) | 98.3 | Sep 2029 | 7.55 | 80.6589 | 10.62 | +475(j) | Morgan Stanley DW |
| Goldman Sachs Group(d)‡ | 75 | Dec 2002 | (d1) | 99.893R | - | - | Goldman Sachs |
| MLCC M'gage Invstrs(g)★‡ | 308.09 | Mar 2011 | (g1) | 100.00R | - | - | Merrill Lynch |
| Suedwest Landesbank(s)★ | 175 | Sep 2001 | 3.40# | 92.95 | 5.531 | - | Nikko Europe |
| PG&E, Class A1(h1)★ | 125 | Sep 2000 | 5.94 | 99.99656 | - | +5(EDSF) | Morgan Stanley DW |
| PG&E, Class A2(h2)★ | 265 | Jan 2001 | 6.01 | 99.99664 | - | +5(EDSF) | Morgan Stanley DW |
| PG&E, Class A3(h3)★ | 280 | Jun 2002 | 6.15 | 99.98875 | - | +48(5⅝Oct98) | Morgan Stanley DW |
| PG&E, Class A4(h4)★ | 300 | Jun 2003 | 6.16 | 99.97709 | - | +48(5⅞Nov00) | Morgan Stanley DW |
| PG&E, Class A5(h5)★ | 290 | Jun 2004 | 6.25 | 99.98630 | - | +48(5⅞Nov01) | Morgan Stanley DW |
| PG&E, Class A6(h6)★ | 375 | Sep 2005 | 6.32 | 99.95917 | - | +58(5¾Oct02) | Morgan Stanley DW |
| PG&E, Class A7(h7)★ | 866 | Sep 2008 | 6.42 | 99.98876 | - | +60(7⅞Nov04) | Morgan Stanley DW |
| PG&E, Class A8(h8)★ | 400 | Dec 2009 | 6.48 | 99.99958 | - | +63(6½Oct06) | Morgan Stanley DW |
| BACB (Jersey)(n,s)‡ | 75 | Nov 2002 | (n1) | 99.872 | - | - | HSBC Markets |
| Polaris Funding Company(p)‡ | 100 | Oct 2002 | (p1,s) | 100.00R | - | - | Merrill Lynch |
| **D-MARKS** | | | | | | | |
| Hellenic Republic(i)‡ | 250 | Nov 2002 | (i1) | 99.42R | - | - | DKB |
| **STERLING** | | | | | | | |
| Merrill Lynch | 200 | Dec 2007 | 7.375 | 99.556R | 7.440 | +75(7¼%-07) | Merrill Lynch |
| **FRENCH FRANCS** | | | | | | | |
| J Sainsbury(b) | 350 | Dec 2004 | (b1) | 100.20 | - | - | Deutsche Morgan G'fell |
| Cregem Finance(e)§ | 943.8 | Jan 2005 | 3.25 | 100.00 | - | - | Morgan Stanley DW |
| DOMOS 3(q,t)‡ | 2.6bn | Jan 2005 | (q1) | 100.00R | - | - | Crédit Lyonnais/JPM |
| Polaris Funding Company‡ | 590 | Sep 2002 | (r) | 100.00R | - | - | Merrill Lynch |
| **SWISS FRANCS** | | | | | | | |
| Abbey National Trsy Srvcs(k) | 100 | Aug 2001 | 2.00 | 97.275R | 2.78 | - | Deutsche Morgan G'fell |
| Municipality Finance | 150 | Dec 2003 | 3.25 | 102.00 | 3.22 | - | SBC Warburg DR |
| **GUILDERS** | | | | | | | |
| L-Bank | 200 | Dec 2003 | 5.125 | 99.521R | 5.229 | +12(6½Apr03) | ING Barings |
| Hellenic Republic | 750 | Dec 2007 | 6.25 | 99.137R | 6.369 | +55(j) | ABN Amro Hoare Govett |
| **ITALIAN LIRE** | | | | | | | |
| European Investment Bk(f)‡ | 400bn | Dec 2009 | (f1) | 100.00 | - | - | Caboto/Cariplo/JPM |
| Republic of Argentina | 300bn | Dec 2000 | 8.60 | 99.90R | 8.098 | +269(swaps) | Chase/Paribas |
| LW Rentenbank(m)‡ | 150bn | Jan 2010 | (m1) | 99.50R | - | - | Credito Italiano |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| State Bank of NSW | 100 | Dec 2000 | 5.50 | 100.535 | 5.302 | - | TD Securities |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Argentabank Luxembourg | 2bn | Jan 2003 | 5.05 | 100.00 | 5.050 | - | BCEE |
| **CANADIAN DOLLARS** | | | | | | | |
| Bayerische Vereinsbank | 100 | Dec 2000 | 5.00 | 99.550SR | 5.166 | +25(5½Feb00) | TD Securities |
| Rabobank Netherlands | 100 | Dec 2003 | 5.375 | 99.325R | 5.510 | +17(5½Sep02) | CIBC Wood Gundy |
| **HONG KONG DOLLARS** | | | | | | | |
| Council of Europe‡ | 1bn | Dec 1999 | (o) | 100.00 | - | - | HSBC Markets |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) $500m launched 14/10/97 was increased to $750m. Plus 34 days accrued. b) Callable from Dec 00 at par. b1) 5.36% to Dec 00, then 6.05% thereafter. c) Morgan Stanley Capital I, 6 tranche commercial mortgage-backed securities pass-through certificates series 1997-RR. Average lives: c1) 4.0 yrs. c2) 7.7 yrs. c3) 10.9 yrs. c4) 14.2 yrs. c5) Class C: $35.3m, Sep 29, 7.44%, 100.9452%. c6) Class E: $30.3m, Sep 29, 7.74%, 92.5116%. d) $300m launched on 20/11/97 was increased to $375m. Callable from Dec 99 at par. d1) 3-mth Libor +35bp. e) Exchangeable into ordinary shares of DEXIA France at FFr728. Callable from Dec 00 subject to a 140% trigger. f) Fungible with L200bn launched 21/11/97. f1) 12% to Dec 98, then 7½% to Dec 02, then 15½% - 2 x 12-mth Libor thereafter. g) 1997-B mortgage loan asset-backed pass-through certificates. Legal maturity: Mar 2026. Average life: 5.34 yrs. Plus 22 days accrued. g1) 1-mth Libor +28bp. h) California Infrastructure and Economic Development Bank Special Purpose Trust, Pacific Gas and Electric Co, Series 97-1. Average lives: h1) 0.56 yrs. h2) 1.09 yrs. h3) 2.00 yrs. h4) 3.01 yrs. h5) 4.02 yrs. h6) 5.17 yrs. h7) 7.31 yrs. h8) 9.48 yrs. i) Over interpolated yield. j) DM1bn launched 17/11/97 increased to DM1.25bn. j1) 3-mth Libor +37½bp. k) Fungible with SFr400m. Plus 146 days accrued. l) Long 1st coupon. m) Callable from Jan 01 at par. m1) 13% to Jan 99, then 16% - 2 x 12-mth Libor thereafter. n) Callable from Nov 00 at par. n1) 3-mth Libor +40bp. o) 3-mth Hibor -30bp. p) Av life: 4 years. Annual prepayment in 3 x ⅓ of the nominal amount from Oct 00. p1) 3-mth Libor +25bp. q) Secured on residential mortgages originated by UCB. Pass-through amortisation. Legal maturity: 25/8/15. Av life: 3.2 yrs. Prepayment assumption 15½%. Clean-up call 10%. q1) 3-mth Pibor +15bp. q2) Class B notes of FFr108.9m privately placed. r) 3-mth Pibor +25bp. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

**EMERGING MARKETS** By Judy Dempsey

# Israel accepts globalisation

Yaakov Neeman, Israel's finance minister, has his work cut out this month trying to avert strikes by the Histadrut, the trade union federation.

The union opposes the Shk2.3bn ($650m) expenditure cuts Mr Neeman demands for next year's budget. His intention is to reduce the budget deficit from this year's 2.8 per cent of gross domestic product to 2.4 per cent, bringing it down to 1.5 per cent by 2001.

He also has to persuade the governing right wing Likud coalition to accept his tight fiscal policy. Some of the coalition partners have already threatened to vote against the budget during its final reading at the end of December.

In spite of the opposition, Mr Neeman, unlike his predecessors who bought off the unions and their coalition partners, is determined not to bow to pressure.

"I intend to stick to my targets," he said in a recent interview.

These targets included pressing ahead with privatisation of the banks, defence and the electricity sectors. He also wants to break up monopolies and deregulate in a bid to throw open the economy to competition.

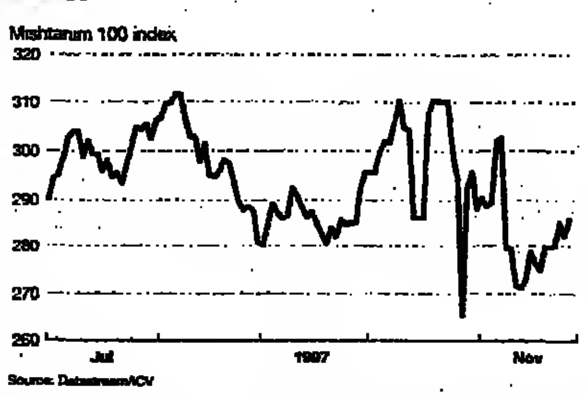
Mr Neeman has a big advantage. Unlike previous finance ministers, he is not affiliated to any political party.

Another point in his favour is that in spite of the stalled peace negotiations between Israel and the Palestinians, the Israeli economy is increasingly insulated from vicissitudes of the peace process.

This is because the country is fast moving away from a socialist, inward-looking, protectionist economy to one increasingly integrated into the global economy.

The decision to lift foreign exchange controls has paved the way to full convertibility of the shekel. Restrictions requiring companies raising capital abroad to bring all the proceeds to the Israeli foreign exchange market within one month and for exporters within one year, have been scrapped.

**Israel**




Source: Datastream/ICV

A sign of the economy's globalisation came when the world's stock markets fell on October 28. The Mishtanim, the index of the 100 leading stocks traded on the Tel Aviv Stock Exchange, fell 9.9 per cent. The market recovered the next day, rising 8 per cent due to price rises on Wall Street.

"The markets are increasingly influenced by what happens outside Israel rather than what happens with the peace process," said Elise Horowitz, analyst at Lehman Brothers, the US investment bank.

Foreign investment and interest in the TASE show no sign of waning. Foreign activity on the TASE has risen from 12 per cent at the end of last year to 13 per cent. And companies, including Deutsche Telekom, the German telecommunications group, and Siemens, the German electronics company, are buying into Israel's high-tech companies, while the appetite for US venture capital and hedge funds tapping the high-tech industry, one of the engines behind the rise in exports, shows no sign of abating.

Gradual integration of the economy into global markets is coupled with the determination by the Bank of Israel to adhere to a tough monetary policy to keep inflation down. Interest rates are currently 13.4 per cent, and the annualised inflation rate is 9.2 per cent.

Such policies have been criticised by Bank Hapoalim, Israel's largest. In its recent economic report, it argued that monetary and fiscal restraint had harmed the economy's growth potential and contributed to a rise in unemployment, running at more than 8.1 per cent.

The economy, for example, will grow only 2 per cent this year, compared with average growth rates of 6 per cent during the first half of the 1990s.

But at that time, the economy was driven by the immigration of more than 800,000 Jews from the former Soviet Union, boosting private consumption rather than structural reforms introduced by the Likud government led by Benjamin Netanyahu.

Yet even as immigration slows to 50,000 this year, all the indicators for 1998 show a recovery in growth, with GDP rising to over 2.5 per cent and inflation down to between 8.5 and 9 per cent. More importantly, Lehman Brothers estimate private consumption will grow from this year's 2.8 per cent to 3.6 per cent.

"The only thing that can upset these trends is war," an analyst said, clearly implying that the peace talks still matter for Israel's economic well being.

**Emerging markets:** IFC weekly investable price indices

| Market | No. of stocks | Dollar terms: Nov 27th 1997 | % Change over week | % Change on Dec '96 |
|---|---|---|---|---|
| Latin America | (271) | 649.09 | +3.4 | +20.7 |
| Argentina | (32) | 1,068.90 | +4.6 | +12.4 |
| Brazil | (76) | 460.34 | +4.0 | +16.1 |
| Chile | (50) | 657.44 | -1.3 | +6.0 |
| Colombia[1] | (15) | 798.95 | -0.9 | +26.2 |
| Mexico | (62) | 727.39 | +5.9 | +37.3 |
| Peru[2] | (24) | 217.89 | +1.2 | +10.7 |
| Venezuela[3] | (12) | 927.16 | -2.4 | +27.4 |
| Asia | (758) | 120.31 | -0.5 | -52.4 |
| China[4] | (43) | 57.46 | -8.9 | -22.0 |
| South Korea[5] | (184) | 39.47 | -6.5 | -48.9 |
| Philippines | (49) | 124.23 | -5.8 | -57.7 |
| Taiwan, China[6] | (98) | 140.34 | +2.2 | -8.4 |
| India[7] | (72) | 84.03 | +1.6 | +6.7 |
| Indonesia[8] | (61) | 52.11 | -0.6 | -59.2 |
| Malaysia | (157) | 100.11 | -0.1 | -70.3 |
| Pakistan[9] | (24) | 251.47 | +5.0 | +28.5 |
| Sri Lanka[10] | (5) | 109.29 | -4.5 | +14.9 |
| Thailand | (65) | 61.88 | -6.3 | -72.0 |
| Euro/Mid East | (398) | 141.87 | -0.9 | +5.7 |
| Czech Rep | (6) | 54.39 | -4.6 | -22.5 |
| Egypt | (28) | 94.96 | +0.6 | - |
| Greece | (54) | 323.76 | +0.1 | +33.6 |
| Hungary[11] | (13) | 245.56 | -1.8 | +24.9 |
| Israel | (46) | 120.59 | +2.3 | +20.6 |
| Jordan | (6) | 214.29 | -0.2 | +14.8 |
| Morocco | (11) | 132.16 | -1.2 | - |
| Poland[12] | (30) | 566.71 | -0.6 | -22.8 |
| Portugal | (23) | 203.19 | +4.4 | +39.0 |
| Russia | (31) | 127.56 | -5.0 | - |
| Slovakia | (5) | 94.59 | -4.7 | - |
| South Africa[13] | (77) | 185.71 | -0.2 | -11.0 |
| Turkey[14] | (58) | 269.90 | -4.6 | +91.5 |
| Zimbabwe[15] | (10) | 405.73 | -4.4 | -14.3 |
| Composite | (1,427) | 245.00 | +0.9 | -17.0 |

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

# THE WEEK AHEAD

## DIVIDEND & INTEREST PAYMENTS

**■ TODAY**

Abbey National Treasury 10¾% Sb Bd 2006/11 £1075.0
Adscene 7.8% Ser 2 Cv Pf 3.9p
American General $0.35
Andrews Sykes Cv Pf 3.5p
Anglian Water 8¼% Bd 2006 £82.50
Austin Reed 2.5p
Barclays Bank Non-Cm $ Pf Ser C1 $0.4219
Do Ser C2 $0.1406
Do Ser D1 $0.4313
Do Ser D2 $0.1437
Do Units $0.5625
Do Ser D Pf Units $0.575
Blue Circle 10¾% Bd 2013 £537.50
Cadbury Schweppes 5⅞% Nts 1998 $58.75
Canning (W) 3.7p
Caradon Cv Rd Pf 3.625p
City of Oxford Inv Tst 1.3p
Croda Int 3.55p
Dalgety 6p
Delta 4.5p
Densitron Int 0.6p
Dicom 1.6p
Dinkie Heel 0.6p
Eksportfinans 7¼% Nts 1998 £72.50
Exmoor Dual Inv Tst 1.191p
Do Inc 1.8p
Fishers Int 0.2p
Fleming Claverhouse Inv Tst 1.45p
Fleming Inc & Cap Inv Tst 1.4p
Do Units 1.4p
Fleming Mercantile Inv Tst 4¼% Perp Db £2.125
Fleming Smaller Co's Inv Tst 3.2p
Folkes 0.753p
Do N/Vtg 0.753p
Ford $0.42
Foreign & Colonial Inv Tst 4¼% Perp Db £2.125
Galliford 0.55p
Garton Eng 2.5p
General Cons Inv Tst 4¼% A Cm Pf £1.4875
Genfinance 11.49% Ln 2007 £57.45
Glaxo Wellcome 8¾% Bd 2005 £87.50
Govett Oriental Inv Tst 5% Cm Pf 1.75p
Great Portland Estates 9½% Cv Un Ln 2002 £4.75
Guinness 7⅜% Nts 1997 £73.75
Hambros Inv Tst 3½% Cm Pf £1.225
Henderson Smaller Co's Inv Tst 4½% Cm Pf 1.575p
Do 10½% Db 2016 £5.25
House of Fraser 1.7p
Ibstock 0.75p
Illingworth Morris 5% Non-Cm Pf 1.225p
Inco $0.10
Ingersoll-Rand $0.15
Kirklees 11.8% Rd 2031 £5.80
Kleinwort Charter Inv Tst 4% Cm Pf £2.0
*Ladbroke* 2.6p
Lamont 3.65p
Law Debenture 4½% Db £2.25
Legal & General 4p
Lewis (John) 5% Cm Pf 1.75p
Do 7½% Cm Pf 2.625p
London 2½% Cons £0.625
Do 3% Cons £0.75
London & Manchester 8⅛% Nts 2004 £81.25
Manganese Bronze 8p
Metsec 1.5p
Midland Bank 14% Sb Un Ln 2002/07 £7.0
Minerals Oils & Res $0.25
Monks Inv Tst 11% Db 2012 £5.50
Murray Smaller Mkts Tst 4.1% Cm Pf 2.05p
National Power 6¼% Bd 2003 $62.50
NT & T 6% Nts 2000 $60.0
Northern Leisure 3.5p
*Paterson Zochonis* 11.7p
Do A N/Vtg 11.7p
P & O 7⅞% Db 2027 $38.97
Do 7.3% Nts 2007 $34.27
Perstorp Free B SKr2.75
Pochins 1.75p
Polyhedron 1.15p
Reed Int 4½% Cm Pf 1.575p
Do 5½% Cm Pf 1.925p
RMC 8.2p
RPH 4% Cm Pf 1.4p
Do 8% Cm Pf 2.8p
Royal & Sun Alliance 7.15p
Scottish Mortgage & Tst 1.7p
Silk Inds 2p
Sony Y25.0
State Bank of New South Wales 6½% Bd 2000 A$65.0
Sutton & East Surrey Water 10% Rd Db 1997/99 £2.493151
Tesco 3.55p
War 3½% Ln £1.75
Wright (John) 4½% Cm Pf 1.575p
Yorklyde 2.65p

**■ TOMORROW**

Asarco $0.20
BAT Inds 12¼% Un Ln 2003/08 £6.125
Bilton 3p
Bostrom 3p
Boxmore Int 1p
Cookson 4.1p
Enterprise Oil 10¾% Un Ln 2013 £5.375
Fujitsu Y5.0
New Central Witwatersrand R1.59
NT & T 7⅜% Nts 2003 £73.75

**■ WEDNESDAY DECEMBER 3**

Asahi Chem 7⅛% Bd 1999 Y712500.0
Bupa Fin 10½% Sb Gtd Bd 2018 £1050.0
Carisbrooke Shipping 1p
Dorling Kindersley 3p
Glynwed 4.4p
Halifax 7¾% Nts 1998 £775.0
St Ives 8.2p
Schroder Ventures Int Inv Tst 1.92p
Tarmac 3p
Utd News & Media 6⅛% Sb Cv Bd 2003 £153.125
Yorkshire Water B 0.493359p

**■ THURSDAY DECEMBER 4**

Abbey National Treasury Gtd Tec 10 Indxd FRN 2006 FFr112.75
Anglo Irish Cap Fdg Ser A Fltg Rate Non-Cm Gtd N/Vtg Pf $0.52
Antofagasta 1.8p
Eurodollar 2.5p
Export-Import Bank of Japan 8% Gtd Bd 2000 $55.0
Hambros Smaller Asian Co's Tst $0.0015
Hat Pin 1p
Ideal Hardware 3p
Lloyds Bank Sb FRN 1999 £19.79
Sears 1.05p
Sumitomo Bank Cap Mkts Gtd Fxd/FRN 2002 $91250.0
Westpac Banking FRN 1999 DM82.47

**■ FRIDAY DECEMBER 5**

Aberforth Split Level Tst 2.45p
Do Units 2.45p
Abtrust Asian Smaller Co's Inv Tst 0.7p
Aggregate Inds 0.8p
Anglo American Gold Inv R5.65
Baronsmead VCT 2.125p
Betacom 0.3p
Boeing $0.14
Brixton Estate 3.25p
Canadian O'seas Packaging C$0.75
Capital Inds 2.85p
Ferguson Int 4.5p
Goshawk Insurance 1.2p
GT Inc Growth Tst 1.6p
Hankyu 7⅛% Bd 2000 Y7125000.0
Hoare Govett 1000 Index Inv Tst 1p
Hoare Govett Smaller Co's Index Inv Tst 1.5p
Jupiter Extra Inc Tst 1.96875p
Meggitt 1.5p
Old English Pub 1.2p
Perpetual Inc & Growth Inv Tst 2p
Quintain Estates & Dev 1.5p
Radamec 1.1p
Swan Hill 1.1p
Torch 1p
Venturi Inv Tst 2.07p

**■ SUNDAY DECEMBER 7**

Treasury 7% 2002 £3.50
Treasury 7¼% 2007 £3.625
Treasury 7½% 2006 £3.75
Treasury 8% 2003 £4.0
Treasury 8% 2015 £4.0
Treasury 8% 2021 £4.0
Treasury 8½% 2005 £4.25

## UK COMPANIES

**■ TODAY**

COMPANY MEETINGS:
Kleinwort Development Fd, 10, Fenchurch Street, E.C., 12.45
Paterson Zochonis, Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
Schroder Ventures Int Inv Tst, 120, Cheapside, E.C., 12.00
Stratagem, Exchange House, Primrose Street, E.C., 11.30
Waverley Mining Finance, 13, Charlotte Square, Edinburgh, 9.30

BOARD MEETINGS:
Finals:
Asset ManagementBrooks Indl
Deltron Elec
Guinness Flight Extra Inc
Imperial Tobacco
Jennings Bros
SBS
Young (H)
Interims:
Acal
AEA Tech
AIT
Allen
Bath Press
Compco
Eliza Tinsley
Prism Rail
Scottish & Newcastle
Smith (James) Estates
Wainhomes

**■ TOMORROW**

COMPANY MEETINGS:
Dorling Kindersley, 9, Henrietta Street, Covent Garden, W.C., 10.30
Netcall, Tricorn House, Five Ways, Hagley Road, Birmingham, 11.00
White Young Green, 107, Cheapside, E.C., 12.00

BOARD MEETINGS:
Finals:
Character Grp
Chrysalis
Eldridge Pope
Get
Sanderson Elec
Scottish Radio
Shaftesbury
Interims:
Alba
Allied Colloids
Aortech Int
Columbus
East Surrey
Field
*Hazelwood Foods*
Merrydown
Morrison Construction
Norbain
OMI Int
Siebe
Stagecoach
Videologic
Zambia Cons Copper

**■ WEDNESDAY DECEMBER 3**

COMPANY MEETINGS:
Gardner (L), Manchester Airport Hilton Hotel, Outwood Lane, Ringway, Manchester, 2.00
Provend, 19, Aintree Road, Perivale, Greenford, Middx., 10.00

BOARD MEETINGS:
Finals:
Bass
Blick
Carlton Comms
Heals
MEPC
Interims:
BTG
Eve
Gibbon
Heath (Samuel)
Orbis
Quilligotti
Readicut

**■ THURSDAY DECEMBER 4**

COMPANY MEETINGS:
Allied London Properties, Four Seasons Hotel, Hamilton Place, Park Lane, W., 12.00
Scottish Metropolitan, Glasgow Hilton, 1, William Street, Glasgow, 11.30

BOARD MEETINGS:
Finals:
Avon Rubber
Denby
Dewhurst
Grand Metropolitan
Greencore
Hawtin
Stakis
Interims
Abbeycrest
Birkby
Castings
Expro
GEC
Great Universal Stores
Hanson
ML Hldgs
TLG

**■ FRIDAY DECEMBER 5**

COMPANY MEETINGS:
Assoc British Foods, New Connaught Rooms, Great Queen Street, W.C., 11.00
Costain, Novotel London Hammersmith, 1, Shortlands, W., 9.30
Highland Distilleries, Glasgow Royal Concert Hall, 2, Sauchiehall Street, Glasgow, 12.00

BOARD MEETINGS:
Finals:
Landround
Phytopharm

**■ SATURDAY DECEMBER 6**

COMPANY MEETING
Sheffield Utd, Ponds Forge Int Sports Centre, Sheaf Street, Sheffield, 11.00

*Company meetings are annual general meetings unless otherwise stated.*
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

# CONFERENCES & EXHIBITIONS

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**IFR Review of the Year Conference**
**Evaluating the Risks and Opportunities of the European *High Yield Bond Market.***
This event will attract issuers, bankers and investors from Europe to discuss the search for higher yields and how to overcome the increased risks you face. Key speakers include: Martin Fridson, Chief High Yield Strategist, Merrill Lynch, Heinz Fesser, Head of Fixed Income, OWS, David Weingast, Corporate Fixed Income Research, Alliance Capital Management.
For programme details:
Contact: Desiree McDonald
Tel: 0171 369 7937
Fax: 0171 369 7334
IFR CONFERENCES Grosvenor House Hotel, London

**DECEMBER 2-4**
**SHOREX 97**
is the premier offshore exhibition and conference. SHOREX brings together offshore service providers, intermediaries and clients to share the best in offshore professional services and offshore finance.
If you would like to visit the exhibition or attend the conference, please call Anna Klein on +0171 482 1000.
Business Design Centre, LONDON

**DECEMBER 3-5**
**Venture Forum Europe '97**
Arranged by FT Conferences and Venture Economics, this 8th annual Venture Forum Europe looks at the latest information on private equity in Europe, the debt market, exits, how privatisation is fuelling investment in C&E Europe, opportunities in other emerging markets and how Europe is increasing its appeal to the US investor.
Enquiries: Sarah Gibb, FT Conferences
Tel: +44 171 896 2639
Fax: +44 171 896 2696
Email: sarahg@pearson-pro.com
LONDON

**DECEMBER 8 & 9**
**FT World Pulp and Paper Conference**
Focusing on issues concerning the pulp and paper industry, their customers and solutions. Confirmed speakers include: Mr Brett G Hetton, Chief Financial Officer, APRIL; Mr Masahiko Ohkuni, President, Oji Paper Co. Ltd; Mr Arnold M Nemirow, Chairman and Chief Executive Officer, Bowater Incorporated.
Enquiries: +44 171 896 2120
Fax: +44 171896 2696/2697
Email: lucindar@pearson-pro.com
LONDON

**JANUARY 13**
**THE ECONOMIST CONFERENCES**
Achieving business success in Russia and Central Europe. A one day interactive business conference for US executives.
For further information contact:
Andrea Stark, The Economist Intelligence Unit
Tel: (43 1 or intl. 011 43 1) 712 41 61 40
Fax: (43 1 or intl. 011 43 1) 714 67 69
Email: AndreaStark@eiu.com
Marriott East Side Hotel, NEW YDRK

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Tel: 0171 628 4112 Fax: 0171 628 4113
Internet: http://www.birchin.com
Email: birchin@birchin.com
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**JANUARY 21-23**
**Introduction to the City and Financial Markets**
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Tel: 0171 628 4112 Fax: 0171 628 4113
Internet: http://www.birchin.com
Email: birchin@birchin.com
LONDON

**JANUARY 23**
**Limitation on Benefits Clauses Compared - risks and opportunities in practice**
One-day seminar Organized by the IBFD International Tax Academy in cooperation with Deloitte & Touche and the Austrian Chamber of Commerce.
Enquiries: Martine van der Weg
IBFD International Tax Academy, Amsterdam, The Netherlands
Tel: +31-20-626-7726
Fax: +31-20-620-9397
VIENNA

**JANUARY 26-28**
**Understanding Derivatives**
Fundamentals to Derivatives Markets. How to hedge or leverage exposures on interest rates, currencies, equities and commodities using: • Futures • Options • Swaps • Swaptions • Exotics.
Recent innovations in: • Value at Risk Models • Credit Risk Derivatives.
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Tel: 0171 628 4112 Fax: 0171 628 4113
Internet: http://www.birchin.com
Email: birchin@birchin.com
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**JANUARY 27-28**
**New Sourcing Strategies for the Finance Function**
25% of finance directors outsource part of the finance function. This conference *examines these new sourcing strategies* and examines potential cost savings and improved service levels.
Enquiries: Jane Mills
Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON



**JANUARY 28-30**
**Essentials of Risk Management**
• Forwards, futures, options, swaps and structured notes • Overview of modern derivatives • Hedging a stock portfolio • Business risk management • Interest rate derivatives • Diversified portfolio using equity swaps • Investing in fixed income emerging markets • Derivative disasters and how to avoid them.
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Tel: 0171 628 4112 Fax: 0171 628 4113
Internet: http://www.birchin.com
Email: birchin@birchin.com
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**The Leadership Trust Foundation Inaugural Conference**
**"Leadership Development: the challenges ahead"**
The new millennium will see the need for new leadership. It is these *new* leaders who will succeed. This conference provides an opportunity to share the knowledge, practical experience and creative ideas in leadership development that are pointing the way to competitive advantage.
Contact: Catherine Briggs
Tel: +44 (0) 1989 760705
Fax: +44 (0) 1989 760704
Email: ltrescen@dial.pipex.com
LeadershipTrust
*Registered Charity Number 1063916*

**FEBRUARY 3-4**
**Corporate Intranet 98**
Designed to provide you with the facts you need to prepare for the digital economy. *Corporate Intranet 98* covers the business and technologial issues involved in developing internet/intranet/extranet applications.
Enquiries: Jane Mills
Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON



**FEBRUARY 5-6**
**Business Use of Intranets and Electronic Commerce**
Making the business case for Intranets; implementation; technical and security issues; VPN's; Making the E-Commerce pieces fit; Hybrid EDI; Cybershopping; Internet Banking. Case studies and presentations by BT, Glaxo Wellcome; Thomas Miller; AddHunter; Chase Manhattan; EEMA; Surrey Police; Nortel; KPMG; illustrate the use of Intranets and *E-Commerce to achieve competitive edge*
Enquiries: UNICOM
Tel: 01895 256484 Fax: 01895 813095
LONDON

**FEBRUARY 9-13**
**Knowledge Management Series**
The first complete European KM event leads you from an Introduction to KM to Advanced Tools and Systems. Presenters include: Knowledge Associates, McKinsey & Company, The Knowledge Warehouse; Masons Solicitors; Sedecon Finland; Norwegian Technological Institute; Kenniscentrum CiBit; Cranfield School of Management; KPMG; ICL; Management Centre Europe; Coopers & Lybrand; NIP
UNICOM
Tel: 01895 256 484 Fax: 01895 813 095
LONDON

**FEBRUARY 16**
**The 14th Annual FT London Motor Conference**
The changing role of the car is the theme of this major FT automotive event which will bring together high-level industry executives to discuss this and other developments shaping the sector.
Enquiries: Sarah Gibb
FT Conferences Tel: +44 171 896 2639
Fax: +44 171 896 2696
Email: sarahg@pearson-pro.com
LONDON

**FEBRUARY 17-18**
**The Euromoney International Bond Congress**
A unique combination of a conference and exhibition. It gives bond market professionals the opportunity to hear from leading experts, discuss new ideas and develop new contacts. Over 1,100 delegates from 47 countries, including 450 investors, attended in 1997.
Please contact: Catherine Hillier
Tel: +44 (0) 171 779 8322
Fax: +44 (0) 171 779 8396
QEII Centre, LDNDON

**FEBRUARY 23 & 24**
**The 16th Annual FT New Media & Broadcasting Conference**
This year's offers a unique opportunity to learn more about the latest developments in the broadcasting industry. Speakers include: The Rt Hon Chris Smith MP, Secretary of State for Culture, Media and Sport, Mr Richard Eyre, ITV, Mr Graham Wallace, Cable & Wireless Communications.
Enquiries: Sian Fancourt
Tel: 0171 896 2626 Fax: 0171 896 2696
Email: sianf@pearson-pro.com
LONDON

**MARCH 5 & 6**
**The 4th Annual World Steel Conference**
Building on the success of previous events in this series of high-level forums organised by FT Conferences, in association with CRU International, this conference will provide insight into positive developments in mature markets and reassess the opportunities in emerging markets.
Enquiries: Lucinda Roberts,
FT Conferences Tel: +44 171 896 2120
Fax: +44 171 896 2696
Email: lucindar@pearson-pro.com
LONDON

**MARCH 16 & 17**
**FT World Pharmaceuticals Conference**
This major FT conference, arranged with Coopers & Lybrand, will examine how pharmaceutical companies appear to mastering a new skill - the art of creating brand equity and 'healthcare' value for their products.
Enquiries: Sarah Gibb
FT Conferences Tel: +44 171 896 2639
Fax: +44 171 896 2696
Email: sarahg@pearson-pro.com
LONDON

**MARCH 26 & 27**
**Mediterranean Capital Markets**
The British Government, as Presidency of the EU, is pleased to announce this major two day conference, supported by the European Commission and FT Conferences. It will examine the fast-growing capital markets of the Southern Mediterranean region, and the opportunities they offer for portfolio investment.
Enquiries: Sian Fancourt
Tel: 0171 896 2626 Fax: 0171 896 2696
Email: sianf@pearson-pro.com
The Guildhall, LDNDON



# LANGUAGE COURSES

# CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Nov 28 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 20.9153 | +0.1245 | 054 - 251 | 20.9251 | 20.7361 | 20.8491 | 3.8 | 20.7229 | 3.7 | 20.2062 | 3.4 | 102.5 |
| Belgium | (BFr) | 61.3099 | +0.3748 | 618 - 581 | 61.3581 | 60.7700 | 61.1018 | 4.1 | 60.7191 | 3.9 | 59.1531 | 3.5 | 102.0 |
| Denmark | (DKr) | 11.3123 | +0.0887 | 079 - 166 | 11.3166 | 11.2166 | 11.2772 | 3.7 | 11.2118 | 3.6 | 10.9545 | 3.2 | 104.3 |
| Finland | (FM) | 8.9818 | +0.0569 | 733 - 902 | 8.9902 | 8.9050 | 8.9499 | 4.3 | 8.8942 | 3.9 | 8.6806 | 3.4 | 80.8 |
| France | (FFr) | 9.9462 | +0.0608 | 417 - 506 | 9.9506 | 9.8620 | 9.9123 | 4.1 | 9.8499 | 3.9 | 9.5941 | 3.5 | 105.5 |
| Germany | (DM) | 2.9717 | +0.0176 | 704 - 730 | 2.9730 | 2.9459 | 2.9621 | 3.9 | 2.9436 | 3.8 | 2.8673 | 3.5 | 103.1 |
| Greece | (Dr) | 466.328 | +2.869 | 871 - 784 | 466.784 | 462.259 | 468.657 | -6.0 | 472.863 | -5.6 | 498.233 | -6.4 | 65.8 |
| Ireland | (I£) | 1.1361 | +0.0036 | 350 - 371 | 1.1371 | 1.1320 | 1.1351 | 1.1 | 1.1324 | 1.3 | 1.1113 | 2.2 | 97.6 |
| Italy | (L) | 2911.42 | +18.05 | 913 - 371 | 2911.16 | 2886.39 | 2908.14 | 1.4 | 2900.2 | 1.5 | 2844.86 | 2.3 | 76.0 |
| Luxembourg | (LFr) | 61.3099 | +0.3748 | 616 - 581 | 61.3581 | 60.7700 | 61.1016 | 4.1 | 60.7191 | 3.9 | 59.1531 | 3.5 | 102.0 |
| Netherlands | (Fl) | 3.3483 | +0.0204 | 477 - 509 | 3.3508 | 3.3211 | 3.3378 | 4.1 | 3.3172 | 3.8 | 3.2311 | 3.5 | 101.3 |
| Norway | (NKr) | 12.1167 | +0.0403 | 108 - 225 | 12.1225 | 12.0237 | 12.0752 | 4.1 | 12.0049 | 3.7 | 11.7303 | 3.2 | 98.6 |
| Portugal | (Es) | 303.618 | +1.873 | 462 - 774 | 303.774 | 301.040 | 302.87 | 2.6 | 301.666 | 2.8 | 294.813 | 2.9 | 91.6 |
| Spain | (Pta) | 251.246 | +1.586 | 161 - 331 | 251.331 | 249.200 | 250.721 | 2.5 | 249.577 | 2.7 | 243.907 | 2.9 | 76.8 |
| Sweden | (SKr) | 13.0083 | +0.0382 | 010 - 156 | 13.0156 | 12.9527 | 12.9741 | 3.2 | 12.915 | 2.9 | 12.7055 | 2.3 | 85.4 |
| Switzerland | (SFr) | 2.4020 | +0.0183 | 006 - 034 | 2.4034 | 2.3798 | 2.3894 | 6.3 | 2.3678 | 5.7 | 2.2707 | 5.5 | 108.4 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 105.0 |
| Ecu | - | 1.4986 | +0.0087 | 987 - 004 | 1.5004 | 1.4901 | 1.4957 | 3.2 | 1.4882 | 3.0 | 1.4557 | 2.9 | - |
| SDR† | - | 1.225890 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.6841 | +0.0098 | 837 - 845 | 1.6845 | 1.6719 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.8690 | +0.0196 | 683 - 696 | 1.8696 | 1.8526 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.3982 | +0.0133 | 972 - 992 | 2.3992 | 2.3824 | 2.3906 | 3.8 | 2.378 | 3.4 | 2.3284 | 2.9 | 82.6 |
| Mexico | (New Peso) | 13.8381 | +0.0854 | 256 - 405 | 13.8405 | 13.7355 | 13.9947 | -14.0 | 14.3158 | -14.0 | 15.6364 | -13.0 | - |
| USA | ($) | 1.6848 | +0.0103 | 844 - 852 | 1.6852 | 1.6720 | 1.6825 | 1.6 | 1.6776 | 1.7 | 1.6563 | 1.7 | 107.3 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.4623 | -0.0048 | 608 - 637 | 2.4774 | 2.4413 | 2.4567 | 2.7 | 2.4461 | 2.6 | 2.4034 | 2.4 | 87.9 |
| Hong Kong | (HK$) | 13.0240 | +0.0794 | 201 - 279 | 13.0279 | 12.9265 | 13.0316 | -0.7 | 13.0858 | -1.9 | 13.3668 | -2.6 | - |
| India | (Rs) | 65.0081 | +0.4276 | 505 - 656 | 65.0740 | 64.4420 | - | - | - | - | - | - | - |
| Israel | (Shk) | 5.9624 | +0.0364 | 522 - 725 | 5.9725 | 5.9530 | - | - | - | - | - | - | - |
| Japan | (Y) | 215.023 | +2.403 | 928 - 116 | 215.116 | 211.860 | 213.548 | 8.2 | 211.058 | 7.4 | 199.873 | 7.0 | 120.0 |
| Malaysia | (M$) | 5.8817 | +0.0125 | 716 - 915 | 5.9188 | 5.8370 | 5.8784 | 0.7 | 5.8893 | -0.5 | 6.0141 | -2.3 | - |
| New Zealand | (NZ$) | 2.7317 | +0.0153 | 295 - 339 | 2.7339 | 2.7138 | 2.7307 | 0.4 | 2.7288 | 0.4 | 2.725 | 0.2 | 106.4 |
| Philippines | (Peso) | 58.8916 | +0.6801 | 834 - 798 | 58.9380 | 58.3953 | 59.3302 | -13.3 | 60.809 | -14.5 | 66.3942 | -13.1 | - |
| Saudi Arabia | (SR) | 6.3190 | +0.0387 | 173 - 207 | 6.3207 | 6.2713 | 6.3126 | 1.2 | 6.2979 | 1.3 | 6.2279 | 1.4 | - |
| Singapore | (S$) | 2.6831 | +0.0132 | 612 - 650 | 2.6850 | 2.6559 | 2.6812 | 0.8 | 2.6775 | 0.8 | 2.656 | 1.0 | - |
| South Africa | (R) | 8.1823 | +0.0801 | 778 - 867 | 8.1867 | 8.1042 | 8.2469 | -9.5 | 8.3466 | -8.0 | 8.7486 | -6.9 | - |
| South Korea | (Won) | 1970.37 | +95.77 | 391 - 084 | 1970.84 | 1872.54 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 54.3968 | +0.6867 | 606 - 320 | 54.4320 | 53.4715 | 54.3421 | 1.2 | 54.2183 | 1.3 | 53.8825 | 1.3 | - |
| Thailand | (Bt) | 67.8133 | +1.084 | 287 - 978 | 68.4110 | 66.6400 | 68.2359 | -7.5 | 68.6559 | -5.0 | 70.9728 | -4.7 | - |

† Rates for Nov 26. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Nov 28 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 12.4141 | -0.002 | 112 - 170 | 12.4350 | 12.3730 | 12.3914 | 2.2 | 12.3527 | 2.0 | 12.1996 | 1.7 | 102.3 |
| Belgium | (BFr) | 36.3900 | - | 700 - 100 | 36.4450 | 36.2700 | 36.315 | 2.5 | 36.194 | 2.2 | 35.714 | 1.9 | 102.2 |
| Denmark | (DKr) | 6.7143 | -0.0003 | 133 - 153 | 6.7265 | 6.6931 | 6.7024 | 2.1 | 6.6833 | 1.8 | 6.6138 | 1.5 | 104.0 |
| Finland | (FM) | 5.3311 | +0.0012 | 273 - 348 | 5.3386 | 5.3142 | 5.3193 | 2.7 | 5.3018 | 2.2 | 5.2411 | 1.7 | 80.6 |
| France | (FFr) | 5.9035 | - | 022 - 047 | 5.9133 | 5.8844 | 5.8913 | 2.5 | 5.8715 | 2.2 | 5.7925 | 1.9 | 105.2 |
| Germany | (DM) | 1.7639 | -0.0003 | 635 - 642 | 1.7669 | 1.7582 | 1.7606 | 2.3 | 1.7547 | 2.1 | 1.7312 | 1.9 | 103.0 |
| Greece | (Dr) | 276.785 | +0.07 | 580 - 990 | 277.260 | 275.830 | 278.545 | -7.6 | 281.88 | -7.4 | 299.6 | -8.2 | 65.5 |
| Ireland | (I£) | 1.4830 | +0.0044 | 820 - 840 | 1.4840 | 1.4778 | 1.4823 | 0.6 | 1.4818 | 0.4 | 1.4905 | -0.5 | - |
| Italy | (L) | 1728.05 | +0.15 | 710 - 900 | 1730.90 | 1722.50 | 1728.41 | -0.2 | 1728.77 | -0.2 | 1717.6 | 0.6 | 75.8 |
| Luxembourg | (LFr) | 36.3900 | - | 700 - 100 | 36.4450 | 36.2700 | 36.315 | 2.5 | 36.194 | 2.2 | 35.714 | 1.9 | 102.2 |
| Netherlands | (Fl) | 1.9880 | - | 875 - 884 | 1.9911 | 1.9812 | 1.9838 | 2.5 | 1.9774 | 2.1 | 1.9508 | 1.9 | 101.4 |
| Norway | (NKr) | 7.1916 | -0.0202 | 600 - 835 | 7.2194 | 7.1747 | 7.1768 | 2.5 | 7.156 | 2.0 | 7.0823 | 1.5 | 98.0 |
| Portugal | (Es) | 180.210 | +0.01 | 160 - 260 | 180.500 | 179.650 | 180.066 | 1.0 | 179.82 | 0.9 | 177.995 | 1.2 | 92.3 |
| Spain | (Pta) | 149.125 | +0.03 | 110 - 140 | 149.360 | 148.690 | 149.012 | 0.9 | 148.77 | 1.0 | 147.26 | 1.3 | 76.7 |
| Sweden | (SKr) | 7.7210 | -0.0258 | 185 - 235 | 7.7639 | 7.7099 | 7.7111 | 1.5 | 7.6985 | 1.2 | 7.671 | 0.6 | 85.0 |
| Switzerland | (SFr) | 1.4257 | +0.0022 | 252 - 262 | 1.4280 | 1.4200 | 1.4201 | 4.7 | 1.4114 | 4.0 | 1.3709 | 3.8 | 108.6 |
| UK | (£) | 1.6848 | +0.0103 | 844 - 852 | 1.6852 | 1.6720 | 1.6825 | 1.6 | 1.6776 | 1.7 | 1.6563 | 1.7 | 103.9 |
| Ecu | - | 1.1236 | +0.0004 | 232 - 239 | 1.1248 | 1.1219 | 1.125 | -1.5 | 1.1273 | -1.3 | 1.1379 | -1.3 | - |
| SDR† | - | 0.73324 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9996 | -0.0003 | 996 - 996 | 0.9996 | 0.9996 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.1093 | +0.0013 | 092 - 094 | 1.1103 | 1.1081 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.4235 | -0.0008 | 232 - 237 | 1.4253 | 1.4209 | 1.4208 | 2.2 | 1.4176 | 1.7 | 1.4059 | 1.2 | 82.5 |
| Mexico | (New Peso) | 8.2105 | +0.0005 | 080 - 130 | 8.2150 | 8.2050 | 8.3175 | -15.6 | 8.5335 | -15.7 | 9.4405 | -15.0 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 108.1 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.4615 | -0.0118 | 600 - 620 | 1.4620 | 1.4609 | 1.4607 | 0.7 | 1.4581 | 0.9 | 1.4474 | 1.0 | 88.9 |
| Hong Kong | (HK$) | 7.7303 | -0.0001 | 298 - 308 | 7.7315 | 7.7298 | 7.7453 | -2.3 | 7.8003 | -3.6 | 8.0703 | -4.4 | - |
| India | (Rs) | 38.5850 | +0.018 | 600 - 100 | 38.8500 | 38.4500 | - | - | - | - | - | - | - |
| Israel | (Shk) | 3.5389 | -0.0001 | 337 - 441 | 3.5441 | 3.5337 | - | - | - | - | - | - | - |
| Japan | (Y) | 127.625 | +0.65 | 600 - 650 | 127.900 | 126.700 | 126.92 | 6.6 | 125.805 | 5.7 | 120.675 | 5.4 | 121.4 |
| Malaysia | (M$) | 3.4910 | -0.014 | 860 - 960 | 3.5275 | 3.4860 | 3.4937 | -0.9 | 3.5105 | -2.2 | 3.631 | -4.0 | - |
| New Zealand | (NZ$) | 1.6214 | -0.0008 | 205 - 223 | 1.6231 | 1.6205 | 1.6245 | -2.3 | 1.6298 | -2.1 | 1.6487 | -1.7 | - |
| Philippines | (Peso) | 34.8300 | +0.16 | 800 - 800 | 35.2500 | 34.6500 | 35.262 | -14.9 | 36.2475 | -16.3 | 40.0855 | -15.1 | - |
| Saudi Arabia | (SR) | 3.7506 | - | 505 - 507 | 3.7507 | 3.7505 | 3.7519 | -0.4 | 3.7541 | -0.4 | 3.7601 | -0.3 | - |
| Singapore | (S$) | 1.5926 | -0.0016 | 916 - 933 | 1.5960 | 1.5875 | 1.5936 | -0.8 | 1.5961 | -0.9 | 1.6036 | -0.7 | - |
| South Africa | (R) | 4.8565 | +0.006 | 550 - 580 | 4.8580 | 4.8500 | 4.9014 | -11.1 | 4.9752 | -9.8 | 5.282 | -8.8 | - |
| South Korea | (Won) | 1169.50 | +50 | 950 - 950 | 1172.00 | 1150.00 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 32.2865 | +0.2115 | 730 - 000 | 32.3000 | 31.9500 | 32.2975 | -0.4 | 32.319 | -0.4 | 32.399 | -0.3 | - |
| Thailand | (Bt) | 40.2500 | +0.4 | 500 - 500 | 40.7000 | 39.8500 | 40.555 | -9.1 | 40.925 | -6.7 | 42.85 | -6.5 | - |

† SDR rate per $ for Nov 26. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 26: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

## WORLD INTEREST RATES

### MONEY RATES

| November 28 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 6.00 | 2.75 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 6.00 | 2.75 | - |
| France | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 4.60 | - | 3.30 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 3.30 | - | 4.60 |
| Germany | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 4.50 | 2.50 | 3.30 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 4.50 | 2.50 | 3.30 |
| Ireland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.75 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.75 |
| Italy | [illegible] | [illegible] | 6 | [illegible] | [illegible] | 7.75 | 6.25 | 6.02 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.75 | 6.25 | 6.02 |
| Netherlands | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 2.75 | 3.30 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 2.75 | 3.30 |
| Switzerland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 1.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 1.00 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| Japan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| ■ $ LIBOR FT London | | | | | | | | |
| Interbank Fixing | - | [illegible] | [illegible] | [illegible] | 6 | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | 6 | - | - | - |
| US Dollar CDs | - | 5.44 | 5.49 | 5.55 | 5.66 | - | - | - |
| week ago | - | 5.44 | 5.44 | 5.51 | 5.65 | - | - | - |
| ECU Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| SDR Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

### EURO CURRENCY INTEREST RATES

| Nov 28 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Danish Krone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| German Mark | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dutch Guilder | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| French Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portuguese Esc. | [illegible] - 5 | [illegible] | [illegible] | [illegible] | 5 - [illegible] | [illegible] |
| Spanish Peseta | [illegible] | [illegible] - 5 | [illegible] - 5 | [illegible] | [illegible] | [illegible] |
| Sterling | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Swiss Franc | 1½ - 1 | 1½ - 1¼ | [illegible] | [illegible] | [illegible] | [illegible] - 2 |
| Canadian Dollar | 4 - 3¾ | 4 - 3¾ | [illegible] | [illegible] | [illegible] | [illegible] |
| US Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 6 - [illegible] |
| Italian Lira | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Japanese Yen | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Asian $Sing | [illegible] | 6 - [illegible] | 6 - [illegible] | 6 - [illegible] | 6 - [illegible] | 6 - [illegible] |

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.12 | 94.11 | -0.02 | 94.12 | 94.10 | 51,608 | 437,456 |
| Mar | 94.17 | 94.14 | -0.03 | 94.17 | 94.14 | 48,254 | 454,633 |
| Jun | 94.12 | 94.09 | -0.03 | 94.12 | 94.08 | 41,410 | 367,230 |

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.92 | 94.94 | +0.01 | 94.96 | 94.92 | 759 | 5,720 |
| Mar | 95.03 | 95.04 | -0.02 | 95.04 | 95.03 | 160 | 5,951 |
| Jun | - | 94.97 | -0.02 | - | 94.97 | 17 | 607 |

All Open interest figs. are for previous day

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Nov 28 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.45 | 16.22 | 4.847 | 1.853 | 4749 | 5.463 | 19.76 | 495.2 | 409.8 | 21.22 | 3.916 | 1.631 | 3.912 | 2.748 | 350.7 | 2.446 |
| Denmark | (DKr) | 54.20 | 10 | 8.792 | 2.627 | 1.004 | 2574 | 2.961 | 10.71 | 268.4 | 222.1 | 11.50 | 2.123 | 0.884 | 2.120 | 1.489 | 190.1 | 1.326 |
| France | (FFr) | 61.64 | 11.37 | 10 | 2.988 | 1.142 | 2927 | 3.368 | 12.18 | 305.3 | 252.6 | 13.08 | 2.415 | 1.005 | 2.411 | 1.694 | 216.2 | 1.508 |
| Germany | (DM) | 20.63 | 3.807 | 3.347 | 1 | 0.382 | 979.7 | 1.127 | 4.077 | 102.2 | 84.54 | 4.377 | 0.808 | 0.337 | 0.807 | 0.567 | 72.35 | 0.505 |
| Ireland | (I£) | 53.97 | 9.957 | 8.755 | 2.616 | 1 | 2563 | 2.948 | 10.67 | 267.3 | 221.2 | 11.45 | 2.114 | 0.880 | 2.111 | 1.483 | 189.3 | 1.320 |
| Italy | (L) | 2.106 | 0.389 | 0.342 | 0.102 | 0.039 | 100 | 0.115 | 0.418 | 10.43 | 8.630 | 0.447 | 0.083 | 0.034 | 0.082 | 0.058 | 7.386 | 0.052 |
| Netherlands | (Fl) | 18.30 | 3.377 | 2.970 | 0.887 | 0.339 | 869.2 | 1 | 3.618 | 90.65 | 75.01 | 3.884 | 0.717 | 0.299 | 0.716 | 0.503 | 64.20 | 0.448 |
| Norway | (NKr) | 50.60 | 9.338 | 8.209 | 2.453 | 0.938 | 2403 | 2.764 | 10 | 250.6 | 207.4 | 10.74 | 1.982 | 0.825 | 1.979 | 1.390 | 177.5 | 1.238 |
| Portugal | (Es) | 20.16 | 3.726 | 3.276 | 0.979 | 0.374 | 958.9 | 1.103 | 3.991 | 100 | 82.75 | 4.284 | 0.791 | 0.329 | 0.790 | 0.555 | 70.82 | 0.494 |
| Spain | (Pta) | 24.40 | 4.502 | 3.959 | 1.183 | 0.452 | 1159 | 1.333 | 4.823 | 120.8 | 100 | 5.176 | 0.956 | 0.398 | 0.955 | 0.671 | 85.58 | 0.597 |
| Sweden | (SKr) | 47.13 | 8.696 | 7.646 | 2.285 | 0.873 | 2238 | 2.575 | 9.319 | 233.4 | 193.1 | 10 | 1.847 | 0.769 | 1.844 | 1.295 | 165.3 | 1.153 |
| Switzerland | (SFr) | 25.52 | 4.709 | 4.141 | 1.237 | 0.473 | 1212 | 1.394 | 5.044 | 126.4 | 104.6 | 5.416 | 1 | 0.416 | 0.998 | 0.701 | 89.52 | 0.624 |
| UK | (£) | 61.31 | 11.31 | 9.946 | 2.972 | 1.136 | 2911 | 3.346 | 12.12 | 303.6 | 251.2 | 13.01 | 2.402 | 1 | 2.398 | 1.685 | 215.0 | 1.499 |
| Canada | (C$) | 25.56 | 4.717 | 4.147 | 1.239 | 0.474 | 1214 | 1.397 | 5.052 | 126.6 | 104.8 | 5.424 | 1.002 | 0.417 | 1 | 0.703 | 89.66 | 0.625 |
| USA | ($) | 36.39 | 6.714 | 5.904 | 1.764 | 0.674 | 1728 | 1.988 | 7.192 | 180.2 | 149.1 | 7.721 | 1.426 | 0.594 | 1.424 | 1 | 127.6 | 0.890 |
| Japan | (Y) | 28.51 | 5.261 | 4.626 | 1.382 | 0.528 | 1354 | 1.558 | 5.635 | 141.2 | 116.8 | 6.050 | 1.117 | 0.465 | 1.119 | 0.784 | 100 | 0.697 |
| Ecu | - | 40.89 | 7.544 | 6.633 | 1.982 | 0.758 | 1942 | 2.234 | 8.081 | 202.5 | 167.6 | 8.675 | 1.602 | 0.667 | 1.599 | 1.124 | 143.4 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 0.5685 | 0.5669 | -0.0016 | 0.5681 | 0.5660 | 28,772 | 67,216 |
| Mar | 0.5700 | 0.5698 | -0.0016 | 0.5708 | 0.5693 | 2,705 | 5,794 |
| Jun | 0.5732 | 0.5725 | -0.0018 | 0.5732 | 0.5730 | 1,563 | 4,109 |

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 0.7070 | 0.7024 | -0.0041 | 0.7074 | 0.7010 | 10,367 | 46,587 |
| Mar | 0.7100 | 0.7094 | -0.0039 | 0.7118 | 0.7085 | 2,058 | 4,845 |
| Jun | - | 0.7164 | -0.0037 | - | 0.7165 | 1,030 | 1,313 |

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 0.7895 | 0.7842 | -0.0046 | 0.7916 | 0.7838 | 13,554 | 128,053 |
| Mar | 0.8008 | 0.7956 | -0.0046 | 0.8010 | 0.7952 | 2,396 | 6,134 |
| Jun | - | 0.8066 | -0.0046 | - | 0.8076 | 1,255 | 1,540 |

■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 1.6722 | 1.6868 | +0.0148 | 1.6886 | 1.6770 | 7,803 | 54,496 |
| Mar | 1.6696 | 1.6794 | +0.0146 | 1.6810 | 1.6692 | 1,775 | 3,193 |
| Jun | - | 1.6718 | +0.0146 | 1.6670 | - | 1,202 | 1,248 |

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Dec | Jan | Feb | PUTS Dec | Jan | Feb |
|---|---|---|---|---|---|---|
| 1.670 | 1.29 | 2.18 | 2.66 | 1.07 | 2.20 | 2.89 |
| 1.680 | 0.87 | 1.75 | 2.26 | 1.62 | 2.74 | 3.71 |
| 1.690 | 0.51 | 1.37 | 1.87 | 2.30 | - | - |

Previous day's vol., Calls 3,097 Puts 43 . Prev. day's open int., Calls 32,170 Puts 26,735

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

| Strike Price | CALLS Dec | Jan | Feb | PUTS Dec | Jan | Feb |
|---|---|---|---|---|---|---|
| 0.560 | 0.39 | 1.06 | 1.31 | 0.52 | 0.84 | 1.02 |
| 0.565 | 0.21 | 0.84 | 1.04 | 0.83 | 1.13 | 1.30 |
| 0.570 | 0.11 | 0.65 | 0.82 | 1.22 | 1.46 | 1.61 |

Previous day's vol., Calls 308 Puts 203 . Prev. day's open int., Calls 10,396 Puts 33,249

## UK INTEREST RATES

### LONDON MONEY RATES

| Nov 28 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | [illegible] - 7 | 7½ - 7¼ | 7½ - [illegible] | [illegible] | [illegible] | 8 - [illegible] |
| Sterling CDs | - | - | [illegible] | [illegible] | [illegible] | [illegible] |
| Treasury Bills | - | - | 7¼ - [illegible] | [illegible] | - | - |
| Bank Bills | - | - | 7¼ - [illegible] | [illegible] | [illegible] - 7¼ | - |
| Local authority deps. | [illegible] - 7 | 7¼ - [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Discount Market deps | 7¼ - [illegible] | 7¼ - 7 | - | - | - | - |

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5½ | 5 | 5 | 4¾ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Nov 28, 7.1330pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 26, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.801pc. Finance House Base Rate 7½pc from Dec 1, 1997

### BANK OF ENGLAND TREASURY BILL TENDER

| | Nov 28 | Nov 21 |
|---|---|---|
| Bills on offer | £100m | £100m |
| Total of applications | £100m | £530m |
| Total allocated | £100m | £100m |
| Min. accepted bid | £98.215 | £98.240 |
| Allotment at min. level | 58% | 90% |

| | Nov 28 | Nov 21 |
|---|---|---|
| Top accepted rate | 7.1598% | 7.0593% |
| Ave. rate of discount | 7.1330% | 7.0573% |
| Average yield | 7.2621% | 7.1835% |
| Offer at next tender | £100m | £100m |
| Min. accept. bid 28 days | - | - |

■ Pound in New York

| Nov 28 | — Close — | — Prev. close — |
|---|---|---|
| £ spot | 1.6885 | 1.6735 |
| 1 mth | 1.6863 | 1.6710 |
| 3 mth | 1.6813 | 1.6664 |
| 1 yr | 1.6599 | 1.6450 |

**FT GUIDE to WORLD CURRENCIES**
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 7.25 | Exeter Trust Limited | 6.25 | ●Singer & Friedlander | 7.25 |
| Allied Irish Bank (GB) | 7.25 | Financial & Gen Bank | 8.00 | ●Smith & Williamson | 7.25 |
| ●Henry Ansbacher | 7.25 | ●Robert Fleming & Co | 7.25 | Sun Banking Corp Ltd | 7.25 |
| Banco Bilbao Vizcaya | 7.25 | ●Guinness Mahon | 7.25 | TSB | 7.25 |
| Bank of Cyprus | 7.25 | Habib Bank AG Zurich | 7.25 | United Bank of Kuwait | 7.25 |
| Bank of Ireland | 7.25 | ●Hambros Bank | 7.25 | Unity Trust Bank Plc | 7.25 |
| Bank of India | 7.25 | Heritable & Gen Inv Bk. | 7.25 | Whiteaway Laidlaw | 7.25 |
| Bank of Scotland | 7.25 | C. Hoare & Co | 7.25 | Yorkshire Bank | 7.25 |
| Barclays Bank | 7.25 | Hongkong & Shanghai | 7.25 | | |
| Brit Bk of Mid East | 7.25 | Investec Bank (UK) Ltd | 7.25 | | |
| ●Brown Shipley & Co Ltd | 7.25 | Julian Hodge Bank | 7.25 | | |
| Citibank NA | 7.25 | ●Leopold Joseph & Sons | 7.25 | | |
| Clydesdale Bank | 7.25 | Lloyds Bank | 7.25 | | |
| The Co-operative Bank | 7.25 | Midland Bank | 7.25 | | |
| Coutts & Co | 7.25 | NatWestminster | 7.25 | | |
| Cyprus Popular Bank | 7.25 | ●Rea Brothers | 7.00 | | |
| Duncan Lawrie | 7.25 | Royal Bk of Scotland | 7.25 | | |
| | | Scottish Widows Bank | 7.25 | | |

● Members of London Investment Banking Association
* In administration

## OTHER STATISTICS

### STOCK INDICES

| | Nov 27 | Nov 26 | Nov 25 | Nov 24 | Nov 23 | 1997 High | 1997 Low | Since comp. High | Since comp. Low |
|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 4831.8 | 4889.0 | 4891.2 | 4863.5 | 4888.6 | 5330.8 | 4056.6 | 5330.8 | 986.9 |
| FTSE 250 | 4656.7 | 4658.3 | 4651.8 | 4631.3 | 4645.7 | 4983.8 | 4386.2 | 4983.8 | 1379.4 |
| FTSE 250 ex IT | 4695.9 | 4697.4 | 4692.0 | 4672.1 | 4687.0 | 4985.8 | 4380.7 | 4985.8 | 1378.3 |
| FTSE 350 | 2338.8 | 2361.2 | 2361.4 | 2348.6 | 2363.7 | 3548.4 | 2017.9 | 3548.4 | 664.5 |
| FTSE SmallCap | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE SmallCap ex IT | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE All-Share | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE Fledgling | 1240.15 | 1237.91 | 1237.58 | 1237.95 | 1244.39 | 1346.52 | 1223.48 | 1346.52 | 31.14 |
| FTSE Eurotrack 100 | 2566.45 | 2564.66 | 2557.80 | 2551.38 | 2559.67 | 2794.80 | 1693.80 | 2794.80 | 900.45 |
| FTSE Eurotrack 200 | 2574.53 | 2575.09 | 2567.73 | 2552.19 | 2565.92 | 2786.37 | 1947.11 | 2786.37 | 938.62 |
| FT 30 | 3136.80 | 3160.70 | 3163.50 | 3145.70 | 3157.50 | 3430.30 | 2879.80 | 3430.30 | 49.40 |
| FT Govt Securities | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Fixed Interest | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE Gold Mines | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1997 High | Low | Stock | Closing price p | +/- |
|---|---|---|---|---|---|---|---|
| 350 | F.P. | 17/12 | 34 | 32 | Green Property | 32 | -½ |

pm premium.

### LONDON RECENT ISSUES: EQUITIES

[illegible]

### BANK RETURN

| | Wednesday November 26, 1997 £ | Increase or decrease for week £ |
|---|---|---|
| BANKING DEPARTMENT | | |
| Liabilities | | |
| Capital | 14,553,000 | |
| Public deposits | [illegible] | [illegible] |
| Bankers deposits | [illegible] | [illegible] |
| Reserve and other accounts | [illegible] | [illegible] |
| | [illegible] | [illegible] |
| Assets | | |
| Government securities | [illegible] | [illegible] |
| Advance and other accounts | [illegible] | [illegible] |
| Premises, equipment and other secs | [illegible] | [illegible] |
| Notes | [illegible] | [illegible] |
| Coin | [illegible] | [illegible] |
| | [illegible] | [illegible] |
| ISSUE DEPARTMENT | | |
| Liabilities | | |
| Notes in circulation | [illegible] | [illegible] |
| Notes in Banking Department | [illegible] | [illegible] |
| | 22,450,000,000 | +200,000,000 |
| Assets | | |
| Other Government securities | [illegible] | [illegible] |
| Other Securities | [illegible] | [illegible] |
| | 22,450,000,000 | +200,000,000 |

### FTSE GOLD MINES INDEX

[illegible]

## UK GILTS PRICES

[illegible]

### Other Fixed Interest

[illegible]

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## BANKS, RETAIL

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## BREWERIES, PUBS & REST

[illegible]

## BUILDING & CONSTRUCTION

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## CHEMICALS

[illegible]

## CHEMICALS - Cont.

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING - Cont.

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## EXTRACTIVE INDUSTRIES - Cont.

[illegible]

## FOOD PRODUCERS

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HEALTH CARE - Cont.

[illegible]

## HOUSEHOLD GOODS

[illegible]

## INSURANCE

[illegible]

## INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

## INVESTMENT TRUSTS - Cont.

[illegible]

## INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]



هكذا من الاصل

## LONDON SHARE SERVICE

### OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

### INVESTMENT COMPANIES

### LEISURE & HOTELS

### LIFE ASSURANCE

### MEDIA

### MEDIA - Cont.

### OIL EXPLORATION & PRODUCTION

### OIL, INTEGRATED

### OTHER FINANCIAL

### PAPER, PACKAGING & PRINTING

### PHARMACEUTICALS

### PROPERTY

### PROPERTY - Cont.



### PROPERTY - Cont.

### RETAILERS, FOOD

### RETAILERS, GENERAL

### RETAILERS, GENERAL - Cont.

### SUPPORT SERVICES

### SUPPORT SERVICES - Cont.

### TELECOMMUNICATIONS

### TEXTILES & APPAREL

### TOBACCO

### TRANSPORT

### WATER

### AIM

### AIM - Cont.

### AMERICANS

### CANADIANS

### SOUTH AFRICANS

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind R | | [illegible] | — | [illegible] | ♦ | May Oct | 26.8 | – |
| Barlow | | [illegible] | 1.4 | [illegible] | ♦ | Jan Jul | 9.12 | – |
| Gold Flds Prop R | | [illegible] | -1.7 | [illegible] | 1.5 | Feb Oct | 1.9 | – |
| SA Brews | | [illegible] | -2.2 | [illegible] | – | Jul Dec | 2.6 | [illegible] |
| Standard Bank | | [illegible] | -3 | [illegible] | – | Sep Mar | 25.0 | – |
| Tiger Oats | | [illegible] | 2.7 | [illegible] | ♦ | Jan Jul | 9.0 | – |
| Tongaat-Hulett | | [illegible] | 0.3 | [illegible] | ♦ | Jan Jul | 17.8 | – |

### TRADED INDEX SECURITIES

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| FTSE 100 TRAINS | | [illegible] | — | – | – | JaApJyOc | 24.11 | – |

### GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE Index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS")

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

### FT Share Service

*The following changes have been made to the FT Share Information Service: Additions:* Maelor (AIM), Gyrus (HlthC), Holmes Place (L&H), Newsquest (Med). Deletions: St James Place (L&H), Vanguard Prim (OthF), *Leigh Interests (SpSv).*

### ♣ FT Free Annual Reports Service

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To order, call 0121 200 4678.

Reports published by ShareFinder.

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

# FT MANAGED FUNDS SERVICE



● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

[illegible]

### BERMUDA (REGULATED)(**)

[illegible]

### GUERNSEY (FSA RECOGNISED)

[illegible]

### GUERNSEY (REGULATED)(**)

[illegible]

### IRELAND (FSA RECOGNISED)

[illegible]



### IRELAND (REGULATED)(**)

[illegible]

### ISLE OF MAN (FSA RECOGNISED)

[illegible]

### ISLE OF MAN (REGULATED)(**)

[illegible]

### JERSEY (REGULATED)(**)

[illegible]

### JERSEY (FSA RECOGNISED)

[illegible]

### LUXEMBOURG (FSA RECOGNISED)

[illegible]

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هكذا من الأصل



Offshore Funds and Insurances

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Tweedy, Browne Value Funds

Generali International Limited

## OFFSHORE INSURANCES

## LUXEMBOURG (REGULATED)(**)

# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

## OTHER OFFSHORE FUNDS



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Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE



## PACIFIC

## AFRICA

## NORTH AMERICA

## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY NOVEMBER 28 1997 US Dollar Index | %chg since 31/12/96 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 31/12/96 | Gross Div. Yield | THURSDAY NOVEMBER 27 1997 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (75) | 198.37 | -11.5 | 172.79 | 158.42 | 180.07 | 190.98 | 2.7 | 3.94 | 194.88 | 172.55 | 156.42 | 178.74 | 190.97 | 243.87 | 190.41 | 222.78 |
| Austria (21) | 181.61 | -4.4 | 158.80 | 146.51 | 166.54 | 166.48 | 9.5 | 2.02 | 184.88 | 163.69 | 148.39 | 169.57 | 168.50 | 213.59 | 175.14 | 185.52 |
| Belgium (27) | 249.06 | 9.4 | 219.15 | 200.92 | 228.39 | 223.51 | 25.3 | 3.08 | 249.43 | 220.84 | 200.20 | 228.77 | 223.84 | 261.11 | 221.31 | 225.57 |
| Brazil (90) | 221.22 | 18.6 | 194.65 | 178.46 | 202.86 | 451.70 | 24.5 | 1.65 | 225.84 | 199.96 | 181.27 | 207.14 | 460.60 | 322.44 | 178.98 | 179.93 |
| Canada (122) | 206.98 | 9.0 | 182.12 | 168.98 | 189.81 | 213.35 | 13.2 | 1.85 | 204.85 | 181.37 | 164.42 | 187.88 | 211.27 | 233.68 | 178.27 | 198.24 |
| Denmark (32) | 415.82 | 16.1 | 365.88 | 335.46 | 381.32 | 379.73 | 34.5 | 1.35 | 419.27 | 371.22 | 336.52 | 384.55 | 382.90 | 429.78 | 333.94 | 336.97 |
| Finland (26) | 297.34 | 21.1 | 261.63 | 239.88 | 272.67 | 332.67 | 40.0 | 1.87 | 298.03 | 263.88 | 239.21 | 273.35 | 333.37 | 349.43 | 232.96 | 234.34 |
| France (84) | 231.63 | 8.2 | 203.81 | 186.86 | 212.41 | 214.50 | 22.9 | 2.49 | 229.26 | 202.99 | 184.01 | 210.27 | 212.31 | 246.23 | 203.73 | 211.18 |
| Germany (58) | 219.21 | 15.4 | 192.89 | 176.84 | 201.02 | 201.02 | 32.1 | 1.44 | 219.40 | 194.26 | 176.10 | 201.23 | 201.23 | 243.87 | 183.03 | 188.16 |
| Hong Kong, China (66) | 353.12 | -30.4 | 310.71 | 284.87 | 323.82 | 350.45 | -30.4 | 4.56 | 356.29 | 315.45 | 285.98 | 326.76 | 353.61 | 580.03 | 314.76 | 504.78 |
| Indonesia (27) | 97.29 | -57.4 | 85.61 | 78.49 | 89.22 | 217.71 | -34.2 | 3.09 | 97.09 | 85.97 | 77.93 | 89.05 | 217.71 | 254.90 | 94.96 | 219.68 |
| Ireland (16) | 379.62 | 15.4 | 334.03 | 306.25 | 348.12 | 380.68 | 31.8 | 2.73 | 378.80 | 335.21 | 303.87 | 347.25 | 380.78 | 394.88 | 310.28 | 319.58 |
| Italy (53) | 109.20 | 30.8 | 96.08 | 88.09 | 100.14 | 140.92 | 48.6 | 1.73 | 108.62 | 96.17 | 87.18 | 99.62 | 140.17 | 115.27 | 79.11 | 81.84 |
| Japan (482) | 102.48 | -20.6 | 90.17 | 82.67 | 93.98 | 82.67 | -12.7 | 0.96 | 101.93 | 90.25 | 81.81 | 93.48 | 81.81 | 141.12 | 95.91 | 140.22 |
| Malaysia (107) | 177.74 | -70.5 | 156.39 | 143.39 | 162.99 | 238.97 | -59.3 | 3.05 | 177.06 | 156.76 | 142.11 | 162.39 | 239.01 | 660.85 | 170.87 | 605.24 |
| Mexico (27) | 1654.76 | 35.7 | 1456.04 | 1334.95 | 1517.46 | 14854.70 | 41.5 | 1.64 | 1650.70 | 1461.53 | 1324.89 | 1513.99 | 14817.34 | 1901.98 | 1147.98 | 1182.25 |
| Netherlands (19) | 400.21 | 19.1 | 352.15 | 322.86 | 367.00 | 363.13 | 38.8 | 2.31 | 403.77 | 357.50 | 324.09 | 370.34 | 366.38 | 440.67 | 313.76 | 323.93 |
| New Zealand (14) | 80.35 | -12.4 | 70.70 | 64.82 | 73.69 | 69.16 | 0.3 | 4.47 | 80.21 | 71.02 | 64.38 | 73.57 | 69.09 | 96.47 | 75.37 | 91.83 |
| Norway (36) | 323.89 | 9.6 | 285.00 | 261.30 | 297.02 | 316.17 | 23.4 | 1.93 | 321.70 | 284.83 | 258.20 | 295.06 | 314.91 | 374.64 | 277.33 | 280.18 |
| Philippines (22) | 83.82 | -58.8 | 73.76 | 67.62 | 76.87 | 145.50 | -45.5 | 1.41 | 83.84 | 74.23 | 67.29 | 76.90 | 144.76 | 214.07 | 78.40 | 195.16 |
| Singapore (42) | 248.41 | -40.8 | 218.58 | 200.40 | 227.80 | 182.31 | -32.6 | 1.75 | 248.27 | 219.82 | 199.27 | 227.71 | 182.42 | 449.01 | 215.21 | 415.57 |
| South Africa (43) | 271.11 | -14.9 | 238.55 | 218.71 | 248.62 | 287.78 | -11.6 | 3.02 | 274.59 | 243.12 | 220.39 | 251.85 | 291.11 | 370.12 | 259.47 | 328.48 |
| Spain (33) | 264.58 | 20.4 | 232.81 | 213.45 | 242.63 | 298.81 | 38.0 | 2.26 | 264.13 | 233.90 | 212.04 | 242.30 | 298.39 | 277.33 | 198.59 | 198.59 |
| Sweden (49) | 484.48 | 14.8 | 426.30 | 390.84 | 444.28 | 553.76 | 29.9 | 1.87 | 478.74 | 423.88 | 384.25 | 439.10 | 549.04 | 538.94 | 402.49 | 410.53 |
| Switzerland (32) | 322.92 | 35.4 | 284.14 | 260.51 | 296.12 | 285.42 | 43.7 | 1.18 | 323.44 | 286.37 | 259.60 | 296.65 | 285.44 | 329.59 | 231.80 | 244.46 |
| Thailand (39) | 24.99 | -73.9 | 21.99 | 20.16 | 22.92 | 39.04 | -59.0 | 7.20 | 25.93 | 22.96 | 20.81 | 23.78 | 40.10 | 115.54 | 24.99 | 115.50 |
| United Kingdom (215) | 320.96 | 13.3 | 282.44 | 258.95 | 294.35 | 282.44 | 15.1 | 3.49 | 322.24 | 285.31 | 258.64 | 295.55 | 285.31 | 337.99 | 261.60 | 273.36 |
| USA (643) | 389.09 | 28.9 | 342.37 | 313.89 | 356.81 | 389.09 | 28.6 | 1.59 | 387.53 | 343.11 | 311.04 | 355.43 | 387.53 | 389.82 | 293.43 | 307.08 |
| Americas (822) | 352.98 | 27.8 | 310.59 | 284.76 | 323.80 | 297.89 | 28.2 | 1.80 | 351.55 | 311.26 | 282.15 | 322.43 | 296.69 | 365.75 | 269.24 | 280.99 |
| Europe (705) | 279.42 | 18.6 | 245.86 | 225.42 | 256.24 | 259.00 | 28.7 | 2.47 | 279.57 | 247.53 | 224.39 | 256.41 | 258.73 | 298.25 | 227.46 | 233.42 |
| Nordic (147) | 419.63 | 15.7 | 369.24 | 338.53 | 384.81 | 418.48 | 31.2 | 1.79 | 417.08 | 369.28 | 334.76 | 382.54 | 416.87 | 464.93 | 345.30 | 350.27 |
| Pacific Basin (874) | 112.38 | -24.4 | 98.89 | 90.66 | 103.06 | 81.28 | -16.7 | 1.82 | 111.94 | 99.11 | 89.84 | 102.67 | 80.62 | 158.99 | 107.50 | 158.35 |
| Euro-Pacific (1579) | 182.07 | -2.4 | 160.20 | 146.88 | 166.96 | 154.20 | 6.1 | 2.17 | 181.87 | 161.03 | 145.97 | 166.81 | 154.08 | 209.12 | 173.55 | 189.52 |
| North America (765) | 377.46 | 27.8 | 332.13 | 304.51 | 346.14 | 377.23 | 28.1 | 1.60 | 375.84 | 332.77 | 301.66 | 344.71 | 375.62 | 389.57 | 286.81 | 300.50 |
| Europe Ex. UK (490) | 250.88 | 18.5 | 220.71 | 202.35 | 230.02 | 238.72 | 33.9 | 1.89 | 250.49 | 221.77 | 201.04 | 229.73 | 239.41 | 267.07 | 202.63 | 207.25 |
| Pacific Ex. Japan (392) | 203.31 | -35.5 | 178.89 | 164.01 | 186.44 | 196.26 | -27.9 | 3.65 | 203.49 | 180.17 | 163.33 | 186.64 | 197.07 | 320.65 | 194.30 | 315.48 |
| World Ex. US (1801) | 185.59 | -1.6 | 163.30 | 149.72 | 170.19 | 160.67 | 6.6 | 2.15 | 185.37 | 164.13 | 148.79 | 170.02 | 160.53 | 212.89 | 176.94 | 191.71 |
| World Ex. UK (2229) | 244.46 | 11.8 | 215.10 | 197.21 | 224.18 | 220.98 | 16.9 | 1.67 | 243.64 | 215.71 | 195.55 | 223.46 | 220.10 | 262.69 | 211.16 | 229.69 |
| World Ex. Japan (1962) | 325.58 | 19.0 | 286.48 | 262.65 | 298.56 | 317.09 | 23.2 | 1.99 | 324.86 | 287.63 | 260.74 | 297.98 | 316.67 | 344.35 | 264.51 | 274.11 |
| The World Index (2444) | 250.98 | 11.8 | 220.84 | 202.47 | 230.15 | 226.64 | 18.7 | 1.86 | 250.32 | 221.63 | 200.91 | 229.59 | 226.07 | 268.47 | 216.61 | 227.95 |

 CONSTITUENT CHANGES DURING THE WEEK ENDING 28/11/97: Deletions: Salomon Inc (USA) and Yamaichi Securities (Japan). Name change: Sparbanken Sverige to ForeningsSparbanken (Sweden). CONSTITUENT CHANGE WITH EFFECT 1/12/97: Deletion: Signet Banking (USA). Market closed 28/11/97: Indonesia.

Emerging markets: IFC Investable indices

4pm close Nov 28

# NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

*Price data supplied by Extel, part of FT information*

*Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.*

d-new yearly low. P/E price-earnings ratio. ss-splits. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
x Dealings Suspended.

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NASDAQ

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# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 7823.13 | (c) | 7794.78 | 8259.31 (6/8) | 6391.69 (11/4) | 8259.31 (6/8/97) | 41.22 (8/7/32) |
| Home Bonds | 104.82 | (c) | 104.48 | 104.79 (20/11) | 101.09 (14/4) | 104.79 (20/11/97) | 54.99 (1/10/81) |
| Transport | 3199.96 | (c) | 3183.34 | 3359.27 (19/10) | 2222.07 (2/1) | 3359.27 (15/10/97) | 13.23 (8/7/32) |
| Utilities | 258.64 | (c) | 258.58 | 258.64 (28/11) | 209.47 (25/4) | 258.64 (28/11/97) | 10.53 (8/7/32) |

DJ Ind. Day's high 7872.86 (7893.50) Low 7785.08 (7749.77) (Theoretical¶)
Day's high 7853.22 (7846.60) Low 7794.78 (7794.53) (Actual¶)

| Standard and Poors | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 955.40 | (c) | 951.64 | 983.12 (7/10) | 737.01 (2/1) | 983.12 (7/10/97) | 4.40 (1/6/32) |
| Industrials¶ | 1114.02 | (c) | 1109.92 | 1148.82 (7/10) | 865.42 (11/4) | 1148.82 (7/10/97) | 3.52 (30/6/32) |
| Financial¶ | 113.30 | (c) | 112.75 | 118.04 (7/10) | 80.75 (2/1) | 118.04 (7/10/97) | 7.13 (4/9/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 499.10 | (c) | 497.31 | 514.21 (7/10) | 389.47 (11/4) | 514.21 (7/10/97) | 4.64 (25/4/42) |
| Amex Comp | 662.11 | (c) | 662.49 | 721.90 (7/10) | 541.20 (28/4) | 721.90 (7/10/97) | 524.20 (18/7/96) |
| NASDAQ Cmp | 1600.55 | (c) | 1594.50 | 1745.85 (9/10) | 1201.00 (2/4) | 1745.85 (9/10/97) | 54.87 (3/10/74) |
| Russell 2000 | 429.92 | (c) | 428.10 | 465.21 (13/10) | 335.85 (25/4) | 465.21 (13/10/97) | 123.36 (7/12/83) |

### ■ RATIOS

| | Nov 21 | Nov 14 | Nov 7 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.73 | 1.73 | 1.76 | 2.02 |
| | Nov 19 | Nov 12 | Nov 5 | Year ago |
| S & P Ind. Div. yield | 1.50 | 1.58 | 1.60 | 1.81 |
| S & P Ind. P/E ratio | 25.38 | 24.36 | 25.28 | 23.30 |

## US DATA

### ■ MARKET ACTIVITY

| ● Volume (million) | Nov 28 | Nov 26 | Nov 25 |
|---|---|---|---|
| NYSE | 190.497 | 487.750 | 587.890 |
| Amex | 10.297 | 29.192 | 28.280 |
| NASDAQ | 213.840 | 524.323 | 849.579 |

| NYSE | Nov 28 | Nov 26 | Nov 25 |
|---|---|---|---|
| Issues Traded | 3,269 | 3,414 | 3,422 |
| Rises | 1,872 | 1,673 | 1,520 |
| Falls | 1,095 | 1,197 | 1,373 |
| Unchanged | 592 | 554 | 529 |
| New Highs | 125 | 132 | 139 |
| New Lows | 48 | 96 | 77 |

### ■ NYSE TRADING ACTIVITY — Volume : 190,497,000

■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Compaq Cmp | 4,331,200 | 62⅜ | +½ |
| GTE Corp | 2,038,600 | 50⅝ | +⅜ |
| Ph Morris | 1,785,300 | 45½ | −½ |
| AT & T | 1,710,800 | 55⅞ | −⅛ |
| Travelers | 1,681,100 | 50½ | +1⅛ |
| Gen Elect | 1,446,900 | 73¾ | +¼ |
| Boeing | 1,405,800 | 53½ | +1⅛ |
| IBM | 1,340,500 | 109⅜ | −¼ |
| Cabletron | 1,227,300 | 18¼ | +¼ |
| Bc One Cp | 1,214,400 | 51⅝ | +⅝ |

■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Dep Guaranty | 48¾ | +7⅝ | +18 |
| Isco | 19⅛ | +1⅝ | +8.7 |
| Carnival Cp | 54⅛ | +3 | +5.9 |
| BancSouth | 38⅝ | +1⅞ | +5.4 |
| **Downs** | | | |
| Mine West | 27⅛ | −2⅛ | −7.1 |
| Suncor Engy | 32⅞ | −2⅛ | −6.2 |
| ASA | 20⅝ | −1⅛ | −5.2 |
| Staples Sta | 21 | −1⅛ | −5.1 |

### ■ NASDAQ TRADING ACTIVITY — Volume :213,840,000

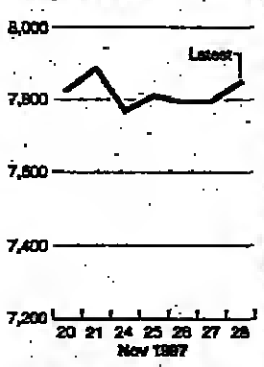
■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Appl Matl | 4,578,100 | 28 | +⅜ |
| 3Com | 3,979,000 | 36¼ | +1⅛ |
| Intel | 3,484,800 | 77⅛ | +1 |
| Dell Comp | 2,819,700 | 84⅛ | +⅛ |
| ADC | 2,332,100 | 46⅝ | +2⅛ |
| Oracle | 2,299,900 | 33⅛ | +⅛ |
| Microsoft | 2,173,500 | 141½ | −⅛ |
| Cisco Sys | 2,037,200 | 86¼ | +1⅛ |
| WorldCom | 2,003,700 | 32 | +⅛ |
| MCI Comm | 1,986,800 | 43⅜ | +⅛ |

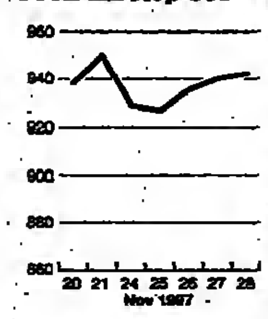
■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| ICTS Hold | 9¾ | +2¼ | +30 |
| Entremed | 15¼ | +3⅜ | +28.4 |
| Cornnect Cp | 23⅝ | +3⅝ | +18.8 |
| UOL Publsh | 18 | +2¼ | +18.4 |
| **Downs** | | | |
| Oacets | 10⅛ | −1⅞ | −15.8 |
| MMC Netwk | 17⅛ | −2⅛ | −11.4 |
| Wa Am Svg | 46⅜ | −5⅜ | −10.2 |
| People Bc | 22 | −2½ | −10.2 |

**Dow Jones**



**FTSE Eurotop 300**



## JAPAN

| | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Nikkei 225 | 16636.26 | 16603.29 | 16045.55 | 20681.07 | 15082.52 | 38915.9 | 85.25 |

■ TOKYO TRADING ACTIVITY — Volume : 713,000,000

■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Yamaichi Sec | 116588000 | 2 | +1 |
| Yasuda T & B | 29,730,000 | 109 | +30 |
| Tokyo Cty Bk | 28,628,000 | 2 | |
| Daiwa Secs | 27,969,000 | 445 | +14 |
| Hokk Taku Bk | 18,288,000 | 2 | |
| Np Cred Bk | 17,009,000 | 113 | +14 |
| Fuji Bank | 15,509,000 | 885 | +30 |
| LTCB | 15,365,000 | 215 | +22 |
| Sakura Bank | 15,249,000 | 446 | +21 |
| Mitsui T & B | 10,436,000 | 215 | +50 |

■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Ashikaga Bk | 168 | +50 | +42.4 |
| Yasuda T & B | 109 | +30 | +38 |
| Hokuriku Bk | 197 | +50 | +34 |
| Miyakoshi Cp | 105 | +25 | +31.3 |
| **Downs** | | | |
| Aoki Corp | 30 | −10 | −25 |
| Akai Elect | 114 | −31 | −21.4 |
| Canon Sales | 1750 | −390 | −18.2 |
| Tokyo Elect | 4900 | −660 | −11.9 |

## FRANCE

| | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| CAC 40 | 2859.10 | 2829.01 | 2811.65 | 3084.01 | 2256.97 | 3084.01 | 984.61 |

■ PARIS TRADING ACTIVITY — Volume : [illegible]

■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Paribas | 1,373,588 | 426.5 | −0.5 |
| Fr Telecom | 1,047,877 | 218.8 | +2.0 |
| Total B | 843,835 | 620 | +4 |
| Rho-Pinc A | 755,632 | 265.4 | +10.2 |
| Elf Aqtne | 701,375 | 685 | +18 |
| BNP | 613,424 | 288 | +2 |
| Usinor | 573,805 | 92.0 | +0.55 |
| Axa-UAP | 560,858 | 428.4 | +1.1 |
| Renault | 528,049 | 165.3 | −1.7 |
| Cr Comm Fr | 507,571 | 349.9 | +20.1 |

■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Cr Fonc Fr | 72 | +7 | +10.9 |
| Bk St Louis | 150.5 | +14 | +10.3 |
| Digigram | 192.9 | +17.0 | +10.2 |
| Metrologie | 373.6 | +34.0 | +10.2 |
| **Downs** | | | |
| Cycnos | 25.8 | −5.9 | −18.7 |
| Lab Dolisos | 136 | −23.9 | −14.9 |
| Arbel (Etb) | 50 | −8.7 | −18.2 |
| Devilla | 61 | −6.5 | −9.6 |

## GERMANY

| | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DAX | 3946.17 | 3953.84 | 3816.53 | 4438.93 | 2848.77 | 4438.93 | 931.18 |

■ FRANKFURT TRADING ACTIVITY — Volume : 7,468,086

■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Bayer | 671,191 | 65.27 | +0.37 |
| Siemens | 405,801 | 103.55 | −2.85 |
| Dmlr-Benz | 387,817 | 124.9 | −0.6 |
| Lufthans Rg | 369,765 | 33.5 | −0.2 |
| Hoechst | 351,193 | 62.3 | −1.37 |
| BASF | 349,517 | 62.4 | +0.57 |
| Dtsche Bk | 339,477 | 113.1 | −0.2 |
| Dt Telekom | 335,042 | 35.75 | +0.05 |
| Commerzbank | 250,936 | 61.3 | +0.1 |
| Veba | 221,234 | 104.8 | +0.65 |

■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Sar Systm | 108 | +11 | +11.3 |
| Mans Kln | 25 | +2 | +8.7 |
| Lahbelt | 59.5 | +4.5 | +8.2 |
| Bk Berz Um | 25.5 | +1.7 | +7.1 |
| **Downs** | | | |
| Dykrhf Pf | 509 | −46 | −8.3 |
| Vil & Bck Pf | 260 | −20 | −7.1 |
| DLW | 202 | −7.8 | −3.7 |
| Rheinl | 54 | −2 | −3.8 |

## UK

| | Nov 28 | Nov 27 | Nov 26 | 1997 High | 1997 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 4831.8 | 4889.0 | 4891.2 | 5330.80 | 4056.60 | 5330.8 | 986.9 |

■ LONDON TRADING ACTIVITY — Volume : 884,100,000

■ ACTIVE STOCKS

| Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| SmKl Bchm | 15,458,578 | 550 | −50 |
| Br Biotech | 14,004,420 | 122 | +4½ |
| Natl Grid | 13,872,900 | 294 | +½ |
| Shell T&T | 13,497,478 | 403 | −0 |
| Centrica | 10,021,140 | 86 | −1½ |
| Mmlund O&G | 8,744,140 | 86 | −½ |
| Burford | 8,545,810 | 106½ | +¼ |
| Grand Met | 8,472,826 | 539 | −9 |
| GEC | 8,262,149 | 385½ | −6 |
| BP | 8,048,896 | 810 | −2 |

■ BIGGEST MOVERS

| Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Intelek | 15¼ | +3¾ | +31.2 |
| Vendome Uts | 472½ | +79 | +20.1 |
| Orbit | 90 | +11½ | +14.0 |
| Firth Hldt | 32 | +4 | +14.3 |
| **Downs** | | | |
| Vigilan Tech | 35 | −22½ | −31.0 |
| BAG Res | 15 | −4½ | −23.1 |
| Eenstone | 57½ | −78 | −14.8 |
| SmKl Bchm | 550 | −50 | −8.1 |

## INDEX FUTURES

| ■ S&P 500 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 954.80 | 954.90 | −0.10 | 962.20 | 953.30 | 65,369 | 382,295 |
| Mar | 966.50 | 965.30 | −0.10 | 972.40 | 965.00 | 3,363 | 30,556 |
| **■ Nikkei 225** | **Open** | **Sett price** | **Change** | **High** | **Low** | **Est. vol.** | **Open int.** |
| Dec | 16780.0 | 16690.0 | −10.0 | 16830.0 | 16640.0 | 18,855 | 172,678 |
| Mar | 16760.0 | 16690.0 | −30.0 | 16830.0 | 16650.0 | 1,414 | 23,660 |

| ■ CAC-40 (200 x index) | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Nov | 2820.0 | 2827.4 | −0.8 | 2830.0 | 2807.0 | 14,384 | 9,000 |
| Dec | 2828.0 | 2863.0 | +29.0 | 2869.0 | 2813.0 | 21,305 | 42,134 |
| **■ DAX** | | | | | | | |
| Dec | 3969.5 | 3987.0 | +12.5 | 3989.0 | 3946.0 | 9,117 | 74,205 |
| Mar | 4003.0 | 4021.5 | +12.0 | 4021.0 | 3982.0 | 71 | 8,094 |

| ■ OMX | Open | Sett Price | Change | High | Low | Est. vol | Open int |
|---|---|---|---|---|---|---|---|
| Nov | 2412.00 | 2424.75 | +13.75 | 2426.00 | 2409.50 | 1,070 | 6,424 |
| Dec | 2420.00 | 2445.00 | +26.00 | 2451.00 | 2416.00 | 2,984 | 25,735 |
| **■ SOFFEX** | | | | | | | |
| Dec | 5774.2 | 5792.0 | +5.5 | 5794.0 | 5765.0 | 2,409 | 18,867 |

Open interest figures for previous day.

## WORLD MARKETS AT A GLANCE

[illegible]

## NASDAQ NATIONAL MARKET

4pm close Nov 28

[illegible]

## NASDAQ NATIONAL MARKET

[illegible]

## AMEX PRICES

4pm close Nov 28

[illegible]

## EASDAQ

[illegible]

# FT GUIDE TO THE WEEK

## MONDAY 1

### France-Spain summit

A stepping-up of cross-border collaboration between France and Spain in the battle against Basque terrorism is expected to set the tone for two days of summit talks in Salamanca between the two governments. Jacques Chirac, the French president, Lionel Jospin, the premier, and half a dozen ministers will meet José Maria Aznar, the Spanish prime minister.

### Banesto trial

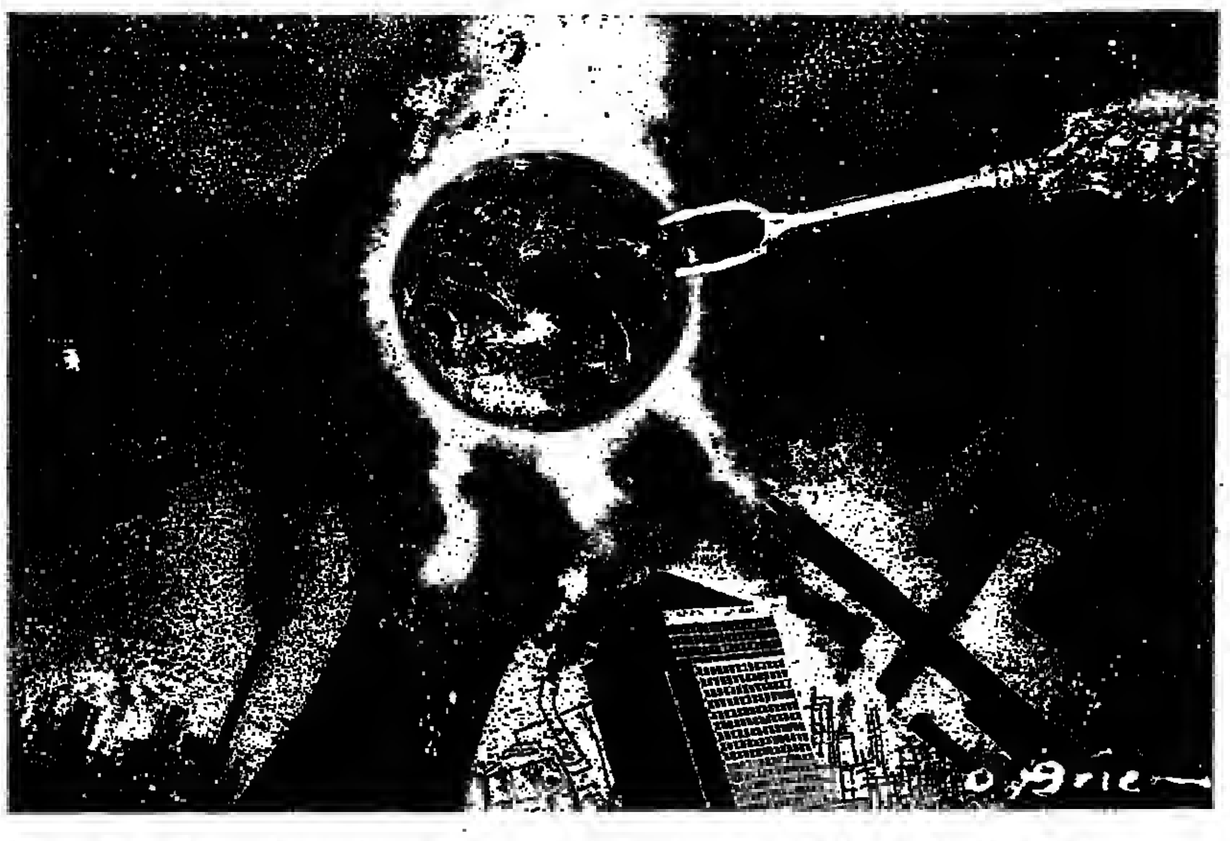
Mario Conde, one-time chairman of Spain's Banesto banking group, goes on trial in Madrid with five former directors and four other associates. They are accused of fraud, misappropriation and forgery. Public prosecutors are seeking a 35-year jail sentence for Mr Conde, who already faces a provisional six-year sentence in a separate case heard earlier this year.

### Holidays

Barbados, Central African Republic, Chad, Macau, New Zealand, Portugal, Romania.

### Surveys

Austria, Czech Republic



Warm words: Officials from 150 countries today start 10 days of negotiations in Kyoto, Japan, aimed at reducing emissions of greenhouse gases associated with climate change. The meeting will focus on agreeing legally-binding cuts by industrialised nations in gases including carbon dioxide from the consumption of fossil fuels. It will also seek a form of words to commit developing countries, whose emissions will exceed those of industrialised countries by 2010, to subsequent curbs. There are fierce disagreements on both issues but a compromise is expected when ministers take over negotiations next Monday

## TUESDAY 2

### Home thoughts

President Fernando Henrique Cardoso of Brazil begins a state visit to Britain (to Dec 5). The visit comes at a tricky time for Cardoso whose country is suffering fallout from the Asian currency crisis. He will address the Confederation of British Industry this morning and meet chief executives of UK financial institutions tomorrow.

### Irish budget

Charlie McCreevy, the Irish finance minister, presents his first budget, with the government set to announce a surplus of revenues over expenditures. In what is the defining budget for membership of the European monetary and economic union, Ireland is well set to qualify. With a buoyant economy, the minister has ample room to offer generous tax cuts, while keeping to a 4 per cent public spending target.

### Nazi gold

An international three-day conference on gold looted by the Nazis during the second world war opens in London. Representatives of about 40 countries will focus on the central question of whether remaining stocks may be used for compensation. The conference is organised by the Tripartite Gold Commission, set up in 1946 by Britain, the US and France. The organisation has insisted all the gold it holds was looted from central banks of Nazi-occupied countries. Jewish groups argue that 5-10 per cent belonged to individuals. The TGC has distributed 98.6 per cent of the gold. It proposes to give the outstanding 5.5 tonnes to some 350,000 survivors and descendants.

### Nato and Bosnia

Defence ministers of the Nato alliance are in Brussels for a two-day formal session of the North Atlantic Council, to be followed in two weeks by a foreign ministers' session. The future international presence in Bosnia will be high on the agenda – the 18-month mandate of the Stabilisation Force expires in June – although final decisions are not expected until well into 1998. Also for discussion will be Nato's new command structure, which is almost ready to be implemented but could be held up by a row between Britain and Spain over Gibraltar. Poland, Hungary and the Czech Republic are expected to sign documents that will admit them as members of Nato in 1999. Parliaments of 16 existing members must approve.

### Landmine treaty

During a three-day conference in Ottawa, more than 110 countries are expected to sign an international treaty banning anti-personnel landmines. Japan is the latest country to announce it will sign the pact, a Canadian initiative. But the US, Russia, China, India, Pakistan and most Middle Eastern countries have declined. Canada is turning to a second campaign (Ottawa II) to speed the clearing of the world's 110m landmines and the rehabilitation of victims. Landmines kill or maim an estimated 30,000 civilians each year.

### Leadership battle

Germany's opposition Social Democrats have chosen the themes of innovation and fairness for a three-day party conference starting in Hanover. But the issue of who will lead the party as chancellor candidate in next September's federal elections will overshadow proceedings. Oskar Lafontaine, the left-wing leader, who ran unsuccessfully for chancellor in 1990, will take the biggest role with an opening speech. But Gerhard Schröder, prime minister of Lower Saxony and alternative chancellor candidate, speaks on Thursday.

### Surveys

International Banking in London (US editions), Brazil

### Holidays

Cuba, United Arab Emirates.

## WEDNESDAY 3

### High-tech pioneer

A prototype of the first transistor – a 1cm-high, plug-in encapsulated unit designed to replace the radio valve – produced at the Bell Laboratories in 1948 is expected to fetch £3,000-£5,000 at auction at Christie's in London.

### New coat of paint

Sotheby's begins a two-day auction of important Old Master paintings – the biggest in a week of sales in London that provide a vital opportunity for Sotheby's, Christie's and Phillips to re-establish the city's threatened status as a leading centre for the marketing of art. Sotheby's auction contains the best collection of paintings in this sector to appear for many years, including four by Canaletto of views of Venice, carrying a collective high estimate of £9m ($15m). There are important paintings by Van Dyck, Rubens, Guardi and Ribera. Christie's offers Venetian views by Marieschi, Carlevarijs and Bellotto as well as a still life by de Heem, estimated at up to £2.5m.

### Congo plea

The Democratic Republic of Congo's hopes of winning foreign backing for its sweeping reconstruction programme and a rescheduling of debts racked up by the late Mobutu Sese Seko will depend on the reception from a Friends of Congo meeting in Brussels hosted by the World Bank to which 30 countries have been invited. But government-orchestrated delays in allowing a UN team to investigate massacres of Rwandan refugees risks seriously undermining support for President Laurent Kabila.

### Taking stock

World Trade Organisation negotiators meet in Geneva to take stock of progress in talks on a global financial services pact, due to conclude on December 12. Asian currency turmoil has overshadowed the talks and key emerging economies have yet to table formal offers to open their banking, insurance and securities markets to foreign competition. Washington will not sign a pact without satisfactory offers from these countries.

### Surveys

Review of Information Technology, India's Software Industry

## THURSDAY 4

### Efta negotiations

Ministers of the four-nation European Free Trade Association meet in Geneva to discuss their trade relations with the European Union and other countries. EFTA, which groups Switzerland, Norway, Iceland and Liechtenstein, is looking increasingly to forge agreements in the Mediterranean and Middle East in parallel with the EU's Euro-Mediterranean initiative.

### Agenda on crime

EU justice and interior ministers meet in Brussels to discuss Europe's common fight against organised crime, a convention on fingerprinting asylum seekers, and common action to fight against drugs. Customs co-operation and better links between judicial authorities are also on the agenda.

### New deal

Caribbean countries of the Lome Convention, a trade and aid treaty with the European Union, meet in Havana to discuss strategy for negotiating arrangements when the convention expires in 2000. The meeting, organised by the Caribbean Council for Europe, a lobby for Caribbean trade in the EU, will also discuss Cuba's likely participation in trade treaties with the EU after 2000.

### Surveys

Business in the Community (UK editions), FT Review of the Automotive Industry

### Holiday

Tonga.

## FRIDAY 5

### Cárdenas' task

Cuauhtémoc Cárdenas, founding father of the left-wing Revolutionary Democratic party and a twice-defeated presidential candidate, will be invested as the first opposition mayor of Mexico City following his resounding victory in elections last July. If he succeeds in cracking the capital's notorious crime syndicates and stamps out corruption within the police force and city administrotion. Mr Cardenas says he will consider running for the presidency again in 2000.

### Presidential priorities

Tony Blair, the prime minister, launches the programme for the UK's presidency of the European Union, which starts on January 1. In addition to the unveiling the presidency logo, Mr Blair will outline the government's priorities for creating a "people's Europe". He will stress the importance of tackling issues that concern ordinary people such as drugs, crime, jobs and the environment. The agenda will also feature the commitment to completion of the the single market and the fostering of flexible labour markets. During the six-month presidency, the UK will chair a crucial conference on the single currency and oversee the start of negotiations on enlargement of the EU.

### Trade with China

The World Trade Organisation working party on Chinese membership meets in Geneva, following a week of bilateral talks between China and its main trading partners. Beijing has made a new market-opening offer for goods, including a cut in its average tariff on industrial imports to 10 per cent by 2005, which both the US and EU say provides a good basis for progress in the decade-old negotiations. But China has yet to come forward with improved proposals to let foreigners compete in its vast services market including banking, insurance and distribution.

### Surveys

The Repo and Strips Market

### Holidays

Ghana, Haiti, Netherlands Antilles, Thailand.

## SATURDAY 6

### Rugby Union

There are international games at Twickenham where England face New Zealand and at Murrayfield where Scotland meet South Africa.

### Boxing

England's Herol Graham, defends his World Boxing Council International super-middleweight title at Wembley Arena against Vinnie Pazienza of the United States.

### Holidays

Finland, Spain.

*Compiled by Roger Beale.*
*Fax: (+44) (0)171 873 3196.*

## ECONOMIC DIARY

### Other economic news

Monday: The Asian crisis may dent activity in US manufacturing as measured by the purchasing managers' index for November. Consumer borrowing in the UK is thought to have been robust during October.

Tuesday: Recent strong activity in manufacturing in the US is expected to produce a further rise in the leading economic indicator for October. Norway's current account deficit is expected to have been little changed in September.

Wednesday: The UK purchasing managers' index for services is expected to have shown continued growth in November, but at a rate little changed from October. The annual rate of economic growth in Australia is thought to have crept up in September.

Thursday: Economic growth in France and Germany is thought to have been relatively stable between the second and third quarters.

Friday: US employment growth is forecast to have slowed in November. The annual rate of inflation is thought to have risen in the Netherlands in November.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual | Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|---|---|---|---|---|
| Mon | Japan | Nov auto sales** | | -14% | Thurs | Germany | Q3 gr dom prod pan-Ger*** (Bundbk) | 0.9% | 1.0%R |
| Dec 1 | Japan | Nov foreign exchange reserves* | | 1,1% | Dec 4 | Germany | Q3 gr dom prod west*** (Bundbk) | 2.0% | 0.8%R |
| | Italy | Oct hourly wage | 4.5% | 4.6% | | France | Q3 prelim gross domestic prod*** | 1.1% | 1.5% |
| | Germany | Nov purchasing managers index† | | 57.49 | | Italy | Nov consumer price index (ex tobacco)* | 0.3% | 0.3% |
| | UK | Nov M0* | 1.0% | 0.8% | | UK | Housing starts | | N/A |
| | UK | Nov M0** | 6.6% | 6.4% | | UK | Construction orders | | N/A |
| | UK | Nov Chartd Inst of Purchasing Mgrs | | 53.7% | | UK | Nov CBI distributive trades | | 38.0% |
| | UK | Oct consumer credit | 950m | 733m | | US | Initial claims Nov 29 | | 303k |
| | Canada | Oct department store sales** | 11.6% | 11.9% | | US | Q3 productivity rev | | 4.5% |
| | Canada | Sep real gross dom prod-factor cost* | 0.2% | 0.0% | | US | Oct home completion | | 1.44m |
| | US | Oct leading indicators | | 0.2% | Fri | US | Nov nonfarm payrolls | | 284k |
| | US | Oct construction spending | | -1.1% | Dec 5 | US | Nov manufacturing payrolls | | 54k |
| | US | Nov domestic auto sales | | 8.6m | | US | Nov hourly earnings | | 0.5% |
| | US | Nov domestic light truck sales | | 6.1m | | US | Nov unemployment rate | | 4.7% |
| Tues | US | Redbook Nov 29 | | 1.7% | | US | Oct factory orders | | 0.4% |
| Dec 2 | Austria | Oct retail trade | 0.5% | 0.6% | | US | Oct consumer credit | | $2.0bn |
| Wed | Austria | Third quarter real gross dom prod (A) | 1.0% | 1.2% | | US | Nov average workweek | | 34.5 |
| Dec 3 | Japan | Third quarter gross domestic product† | 6.4% | -11.2% | | US | Oct factory inventories | | 0.2% |
| | UK | Nov CIPS services survey | | 59.1% | During the week... | | | | |
| | Canada | Nov foreign reserves, chg | -0.5bn | -0.6bn | | Russia | Nov consumer price index* | 0.4% | 0.2% |
| | US | Oct new home sales | | 800k | | Hungary | Nov unemployment rate | 10.1% | 10.1% |
| | Germany | Oct industrial prodtn pan Germany* | 1.6% | -0.4%R | | Russia | Oct M2* | -0.5% | -0.4% |
| | Germany | Oct manufacturing output pan Germany* | 2.0% | -0.5%R | | Russia | Oct M2** | 34.0% | 35.7% |
| | Germany | Oct industrial production west* | | -0.7%R | | Germany | Oct manufcting orders pan Germany* | 1.0% | -0.5%R |
| | Germany | Oct industrial production east* | | 2.1%R | | | | | |

*month on month, **year on year ***qtr on qtr †seasonally adjusted

*Statistics, Standard & Poor's MMS.*

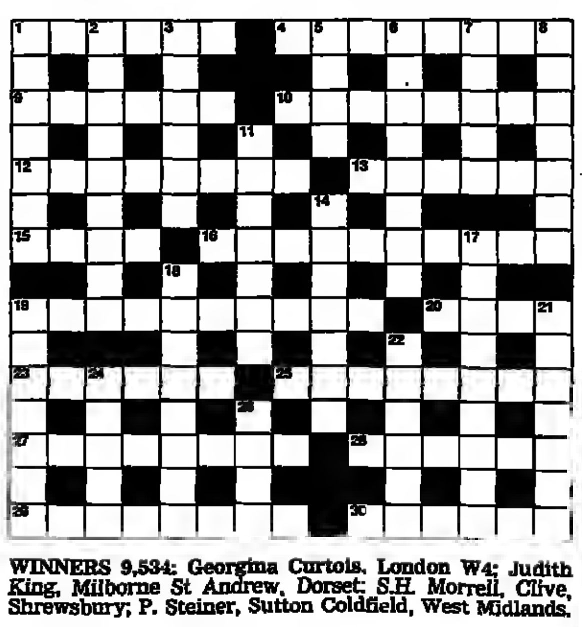
## MONDAY PRIZE CROSSWORD

No.9,546 Set by DANTE

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday December 11, marked Monday Crossword 9,546 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 15. Please allow 28 days for delivery of prizes.

Name

Address



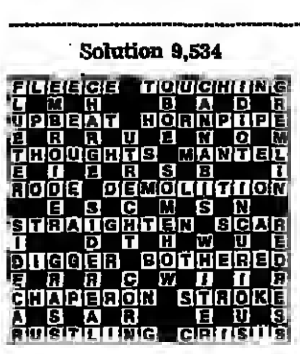
**ACROSS**

1 One getting on at the end of the line (6)
4 Big caber tossed in game (8)
9 The land of the living? (6)
10 A wild cat, lithe and muscular (8)
12 There's profit to be made in street repair (8)
13 Loan shark certain to be found in the city (6)
15 Warm drink in the Hebrides (4)
16 Security zone for motorist (6,4)
19 Undergo personal participation (10)
20 Getting married in a church will be a high spot (4)
23 Bluff king and his successor brought to a temporary stop (6)
25 Sunny spots? (8)
27 Swindle brought to light in defeat (8)
28 Fine for a non-drinker found in quarry (6)
29 Heather Lake's underwear (8)
30 A way to divorce girl (6)

**DOWN**

1 Service initiation (7)
2 Cricketer's initial mistake? (5,4)
3 Possibly run and see to make certain (6)
5 Formal procedure correctly reported (4)
6 A light sweet (5-3)
7 Change may be converted later (5)
8 Passage taken from book unless it holds reader at the start (7)
11 Feeling guilty, has made reparations (7)
14 Planet rising in temperature (7)
17 Revolutionary steps uplift people (9)
18 Grisly morgues out east (8)
19 Honourable code followed by a student (7)
21 Tried and tested (7)
22 Starters for the "Oaks" (6)
24 Mark new sheets and pillowcases (5)
26 He's against the proposal and ain't going to change! (4)

Solution 9,534



WINNERS 9,534: Georgina Curtois, London W4; Judith King, Milborne St Andrew, Dorset; S.H. Morrell, Clive, Shrewsbury; P. Steiner, Sutton Coldfield, West Midlands.





JOTTER PAD

هكذا من الاصل

# CZECH REPUBLIC

Dangers may still lie ahead for the coalition government after the economic difficulties of 1997, say **Robert Anderson** and **Kevin Done**

## A year of growing uncertainty

Eight years after the collapse of communism, the Czech Republic is the only country in east Europe where the leaders of the reformist governments that emerged after the fall of the Berlin Wall still hold power.

But their grip may be loosening. The last general election 18 months ago robbed the government of its overall majority in the lower house of parliament. Prime Minister Vaclav Klaus has been thrown on to the defensive, shorn of his former arrogant confidence and beset by fractious colleagues in a divided coalition.

Once regarded as an island of stability in a turbulent region, the Czech Republic has entered an era of growing political and economic uncertainty. The showpiece economy has been derailed and the currency devalued and left vulnerable.

The present trouble comes in stark contrast with the achievements of recent years. The Czech Republic has been at the forefront of the integration of the former communist countries of east Europe into western structures. The first country from the region to join the Organisation for Economic Co-operation and Development (OECD), the Czech Republic now stands on the threshold of joining Nato and opening negotiations to join the European Union.

Such successes presently count for little at home, however, where Mr Klaus's leadership is under intense scrutiny. The future of his government has again been called into question by recent desertions by senior party colleagues and by the overtures of his main coalition partner towards the opposition. The prospect of early elections looms, but such a move would take the country into difficult uncharted constitutional waters at a time when worries over the health of President Vaclav Havel have resurfaced only weeks before he is due to stand for re-election.

The government has begun belatedly to repair some of the economic deficiencies exposed by the currency crisis in the spring, but it may be too late to save the reputation of Mr Klaus.

Prague is presently obsessed with debilitating speculation as to whether the government's downfall is most likely to be caused by plotting by rivals within Mr Klaus's own Civic Democratic party (ODS), by splits within the Civic Democratic Alliance (ODA), the smallest of the three coalition partners, or by the defection of the Christian Democrats, who have become increasingly estranged from the rest of the centre-right coalition and appear to be contemplating an eventual coalition with the Social Democratic opposition.

The feverish manoeuvring is a symptom of the transformed political balance and the realisation that the painful task of restructuring the economy is far from complete and will require further reforms and a period of tough austerity.

Until the elections of June 1996 Mr Klaus's authority as the author of the Czech transformation was unquestioned and his party was dominant within the three-party coalition, which in turn had little real opposition in parliament.

The coalition's failure to win a majority in that election ushered in a new era, however, in which the Christian Democrats and the rightwing ODA have played a bigger role in cabinet discussions, and Mr Klaus has had to horse trade with the opposition and an independent member of parliament, who holds the balance of power.

Growing signals that all was not right in the economy culminated, however, in the currency crisis in May, which really undermined Mr Klaus's authority and that of the government. (These problems were compounded this past summer when devastating floods inundated a large part of the east of the country).

The currency was forced out of its fluctuation band largely because of worries that the current account deficit, which reached around 8 per cent of gross domestic product (GDP) last year, had become unsustainable. The growing imbalance reflected a surge in domestic demand and poor export performance, as wage increases outpaced productivity.

The government was forced to introduce two austerity packages in the late spring, which together cut spending by around 2.5 per cent of GDP. The tough 1998 budget currently working its way through parliament continues the painful medicine.

The economic troubles were caused in part by delays in enterprise restructuring and the failure to develop a well-functioning capital market.

The Czech model of economic transformation, founded on the vaunted method of mass privatisation through vouchers (given to the population to exchange for shares) has had some unhappy consequences. Large parts of industry are now controlled by investment funds, owned or managed in many cases by the leading banks, which are still owned to a significant degree by the state.

Wheeler-dealing by the funds was left deliberately unimpeded by regulation, in the hope that strong owners would emerge to restructure the companies. Unfortunately this system has held back restructuring, with banks reluctant to force companies controlled by their funds into bankruptcy and funds reluctant to sell stakes in case their banks lost lucrative contracts and loan deals. Ownership has remained fragmented, corporate governance poor and the lack of regulation has encouraged fraud.

Only in the last month has belated progress been made towards tighter capital market regulation with the approval in the lower house of parliament of legislation to establish a Securities and Exchange Commission aimed at bringing greater transparency to the stock market and at preventing the insider trading and fraud that have taken place.

In recent weeks the lower house has also passed amendments to banking legislation, and the cabinet has agreed to investment fund reforms which together will reduce the links between banks, funds and companies. Most fundamentally, the cabinet has also agreed to the sale of the state stakes in the four leading banks, opening the way to significant foreign investment in banking.

Ivan Pilip, the finance minister, insists that "there is a political willingness to continue with reform".

The key areas that still need to be addressed are changes to the bankruptcy law to speed restructuring and to allow banks to reclaim their bad loans, and an overhaul of the legal system to ensure better implementation and enforcement of legislation.

There are early signs that the economy is beginning to respond to the tough measures taken earlier this year. Trade figures are improving as the austerity packages restrict domestic demand, and exports benefit from the devaluation and from stronger foreign demand in particular in Germany.

But Mr Klaus may not be around long enough to enjoy the improving economic environment, particularly if his coalition partners are panicked by public reaction to the austerity programme. The budget freezes wages in the public sector and welfare spending while rents and energy prices are to be raised closer to market levels. Unemployment, while still lower than in neighbouring countries, is rising and could reach 6 per cent next year.

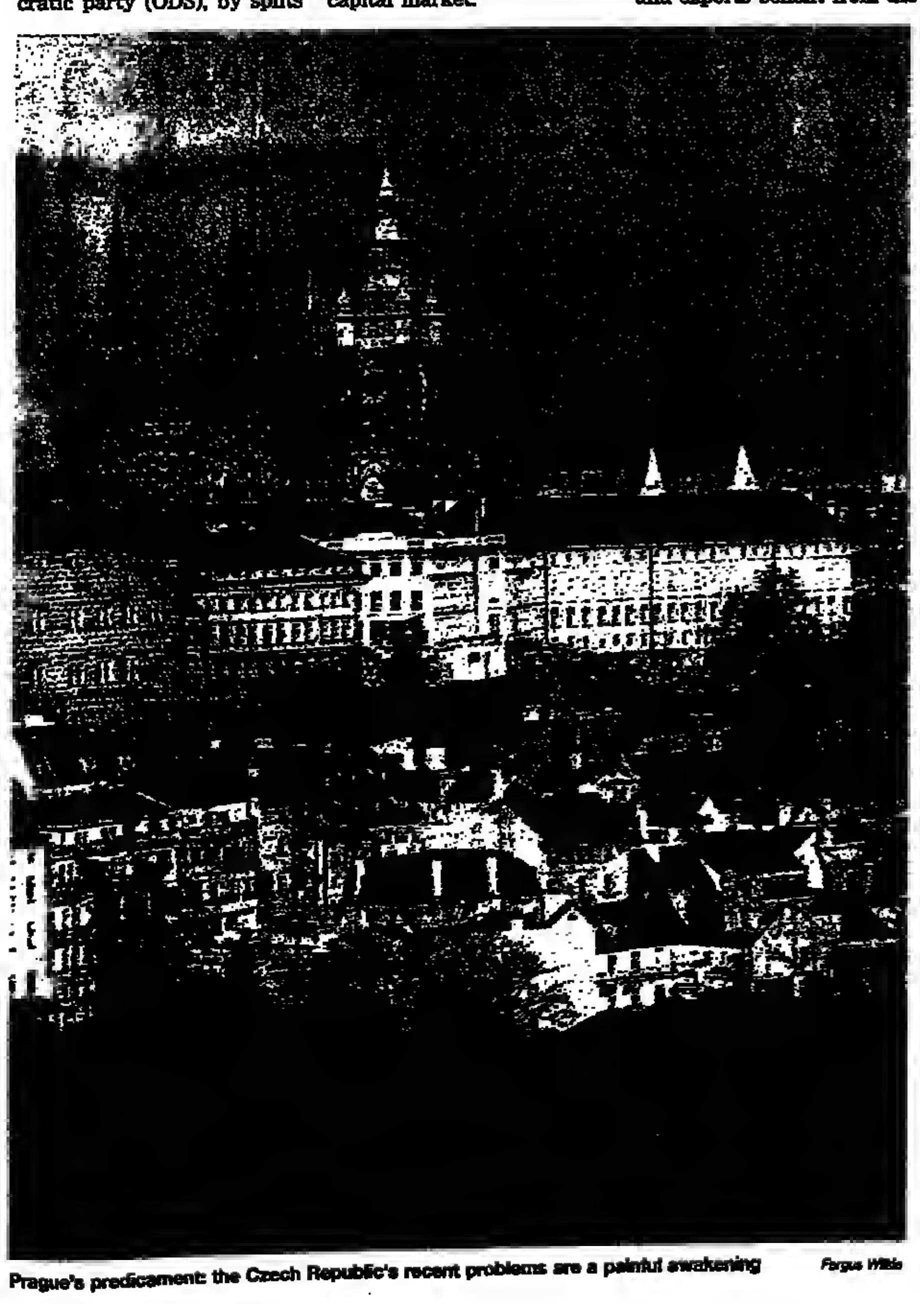
The unions have already mounted one national demonstration and the coming wage round will provide a fresh test of whether wage growth will continue to outstrip productivity gains. The government caved in to a railwaymen's strike last February and they could pose a problem again next year as the railways' managers try to get to grips with spiralling losses.

The disillusionment is reflected in a fall of 10 percentage points in the opinion polls for Mr Klaus's Civic Democrats since the election, and the Social Democrats have opened up a nine-point lead.

This has put further pressure on a government, which has looked increasingly precarious since it survived a vote of no confidence in July by one vote. Six ministers have quit since the election. "This government is growing ideologically apart," says Jiri Pehe, a political analyst. "The parties spend more time attacking each other than on constructive work."

The most dangerous period lies ahead. When Josef Zieleniec resigned as foreign minister in October, the Christian Democrats demanded a review of government strategy at the annual conference of the coalition due in January, and called for a vote of confidence.

The move, widely seen as an effort to oust Mr Klaus or even as a preparation for leaving the coalition, was rejected, but Josef Lux, leader of the Christian Democrats, must still be placated, if the government is to stay in office.



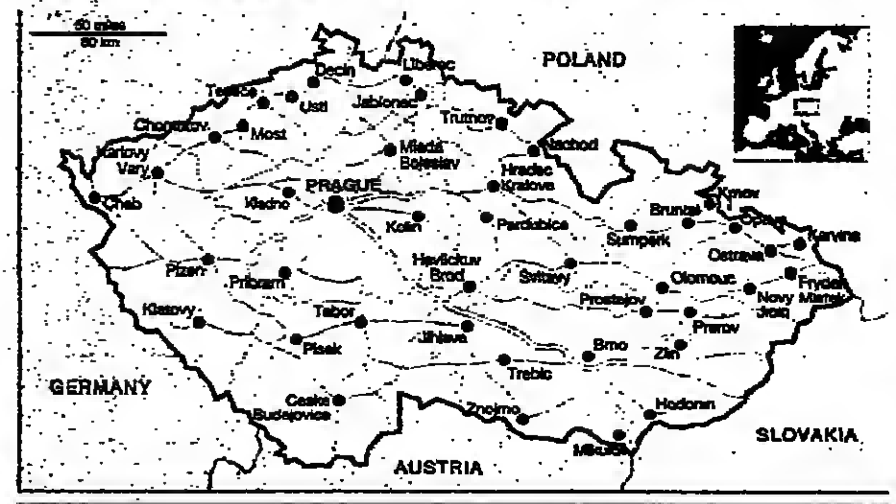
Prague's predicament: the Czech Republic's recent problems are a painful awakening

Fergus Willis

- Area: 78,864 sq km
- Population: 10.3m (1996 end-year est)
- Language: Czech
- Main towns: (1994 end-year est)

| | |
|---|---|
| Prague (capital) | 1,213,299 |
| Brno | 388,576 |
| Ostrava | 325,827 |
| Plzen | 171,908 |

- Currency: Koruna (Kc)
- Exchange rate: 1996 average \$1 = Kc 27.1250; November 24 1997 = Kc 33.4220




**Constitution**

- Form of state: Parliamentary republic
- Head of state: President, Vaclav Havel, elected by parliament on January 26 1993
- National legislature: Parliament of the Czech Republic of 200 members; an upper house, the Senate, with 81 members
- Electoral system: Universal direct suffrage for party proportional representation, subject to 5% threshold
- National elections: Next parliamentary election due by June 2000
- National government: Headed by the prime minister, Vaclav Klaus, and dominated by the Civic Democratic Party. The government was formed in July 1996
- Main political parties: Civic Democratic Party (ODS)*; Civic Democratic Alliance (ODA)*; Christian Democratic Union-People's Party (KDU-CSL)*; Communist Party of Bohemia and Moravia (KSCM); Czech Social Democratic Party (CSSD); Free Democrats-Liberal National Social Party (SD-LNSP); Republican Party

* Members of ruling coalition

Sources: EBRD; Datastream/ICV; EIU; Europa

**Economic summary**

| | 1996 | 1997 Estimates |
|---|---|---|
| Total GDP (Kc billion) | 1,490 | 1,646 |
| Real GDP growth (annual % change) | 4.1 | 1.0 |
| GDP per head (\$) | 5,330 | 5,041 |
| Inflation, end year (annual % change in CPI) | 8.6 | 9.0 |
| Gross average monthly wages (annual % change)* | 17.7 | 13.0 |
| Industrial production (annual % change) | 8.4 | 2.0 |
| Unemployment rate (% of labour force) | 3.5 | 5.0 |
| Broad money, end year (annual % change) | 9.2 | 7.0 |
| Net foreign direct investment (\$ billion) | 1.4 | 1.0 |
| Gross reserves excluding gold, end year (\$bn)** | 12.4 | 11.0 |
| General government balance (% of GDP) | -1.1 | -1.6 |
| External debt stock, convertible currency (\$bn) | 20.4 | 22.0 |
| Current account balance (\$bn) | -4.5 | -3.7 |
| Exports (\$bn) | 21.7 | 20.4 |
| Imports (\$bn) | 27.7 | 25.6 |
| Trade balance (\$bn) | -6.0 | -6.1 |

Main trading partners (share of total trade to world, 1996)

| Exports | | Imports |
|---|---|---|
| 60.9% | EU | 61.1% |
| 21.4% | CEFTA | 16.3% |
| 13.9% | of which Slovakia | 11.8% |
| 1.7% | EFTA | 2.2% |

* Manufacturing ** International reserves of monetary authorities

**POLITICS** • by Robert Anderson

# An uneasy balancing act

## Mr Klaus keeps a nervous eye on his squabbling coalition partners and his own party

For Vaclav Klaus, the republic's prime minister for the past five years, 1997 has largely been a year worth forgetting.

Having lost his parliamentary majority in the June 1996 election, his economic credibility was severely damaged during the currency crisis in May. He barely survived a vote of confidence in July winning 101 votes to 99.

As the economy weakened and the government's austerity programme began to hit voters' pockets, Mr Klaus' centre-right administration was rocked by divisions and sttacks on his leadership. More recently, the opposition Social Democrats (CSSD) have opened a 9 point lead in the opinion polls over his Civil Democratic Party (ODS).

Mr Klaus, once the commanding personality of Czech politics, is no longer even his party's unchallenged leader. Senior figures, notahly vice chairman Miroslav Macek, openly sttack his leadership and in October the foreign minister, Josef Zieleniec, a founding member of the ODS and its most popular figure, resigned in what was widely seen as an attempt to challenge the premier.

If so, the gambit failed as Mr Klaus moved quickly to name a replacement and the party closed ranks around its leader. Jiri Pehe, a political analyst, says: "The ODS is afraid of existing without Mr Klaus. Within the ODS inner circle, Mr Klaus has been strengthened hy the resignation but in the long run he has been weakened."

But the most serlous threat to his leadership and even to the three-party coalition itself is the increasingly semi-detached attitude of the Christian Democrat KDU-CSL. Josef Lux, its leader, is pushing the government to adopt social market policies to meet the economic problems exposed by the currency crisis and the slowdown in growth.

Mr Klaus, who has said the social market is a contradiction in terms, bas been able to balance the Christian Democrats against the right-wing Civic Democratic Alliance (ODA), whicb has called for more vigorous free market messures. But, increasingly, he has had to play the role of ringmaster, as the two parties – wbo co-operated prior to the election to check the power of the ODS – quarrelled over budget cuts, tank sales to Algeria and preparations for Nato membership.

"The coalition has lost its capacity to act and its cohesiveness. There are more things it disagrees about than it agrees on," says a senior member of the coalition.

However, there are also a few signs that the coalition is regaining some momentum. The decision to make deep budget cuts at a time when the coalition's future was in doubt and when it was low in the polls showed considerable bravery. The government is also at last beginning to carry out some of the reforms that its critics, especially foreign investors, have been calling for, particularly in the fields of capital market regulation and bank privatisation.

Much of the credit for this must be given to the new finance minister, Ivan Pilip, who – as s recent convert to the party – has none of the political baggage that its older leaders carry. Mr Klaus is to be commended for allowing Mr Pilip, wbose youth excludes him as a serious political rival, to throw out key elements of his once-vaunted economic model. Mr Klaus, against his own instincts, is at last perhaps becoming a consensus politician.

However, two daunting obstacles lie in the way of the coalition's recovery. The budget passed its first reading in October hy one vote but the coalition only has 100 seats in the 200-member lower house. It is reliant for its majority for the remainder of the bill's progress on Jozef Wagner, an independent who defected from the Social Democrats. He did not vote in the first reading and bas called for a more growth-oriented strategy. He is, bowever, likely to continue supporting the government because he would face political oblivion if elections were to be called.

The bigger obstacle is the coalition conference on January 6 called to assess the government's progress. Mr Lux's call for the drawing up of a new coalition programme followed by a vote of confidence has been rejected by Mr Klaus, but the conference will certainly hear strong criticism of the government's policies and there is a risk that, unless the Christian Democrats are given some face-saving concessions, they could leave the coalition altogether.

Mr Lux said in an interview: "Our wish is that the coalition continues, but visible changes must be made. I am close to the ODS and I wish the co-operation to continue but it must be followed by a change of behaviour. I am not in a fight with Mr Klaus hut I am trying to schieve concrete results and I wish these were mutual."

Mr Lux's bluff bss been called repeatedly by Mr Klaus because his party is unable to form s government with the Social Democrats in the current parliament. Polls indicate that tbey would have to rely on the Communists for a majority if elections were held now, a contingency both parties reject. Moreover, if Mr Lux is seen as deliberately wrecking the government the Czecb people, who value stability, are likely to punish his party at the elections.

It is also unclear whether his party's position in a coalition with the Social Democrats would he a happier one. Allying with the CSSD will be a step into the unknown and there is strong feeling of suspicion against Milos Zeman, its volatile leader, among the Christian Democrat rank and file.

Mr Zeman will certainly try to exploit any difficulties the coalition bas at its conference. "We will probably call a vote of no-confidence in February," he said in an interview.

However, even if the government falls and the parliament passes a constitutional amendment to dissolve, indications do not look good for Mr Zeman. His savage criticism of the government has managed to raise his party's support less than 3 percentage points from the last election to 29 per cent, and that has only registered in the latest polls. Sopport for the coalition is still 36 per cent.

Social Democrat support is likely to rise as economic austerity bites but unless the divided ODA or the far-right repuhlicans fall beneath tbe 5 per cent threshold needed to enter parliament, they are still likely to have to rely on both the communists and the Christian Democrats to form a government.

If the government lasts long enough to allow early signs of economic recovery to mature into general feelings of well-being in the populace and is seen as having regained its momentum, the poll's findings will look even bleaker for Mr Zeman and Mr Lux as their room for manoeuvre disappears.

It is possible then for the problems of 1997 to be forgotten and the squabbling of the coalition partners dismissed as merely routine by an electorate which has only experienced s system akin to one-party rule. As Jiri Weigl, Mr Klaus's chief adviser, argues: "The current situation is not extraordinary, it was the last four years [of coalition stability] that were exceptional."

Pilsner politics: Premier Vaclav Klaus and German Chancellor Helmut Kohl toast improved relations between their nations. The Czech Republic is now moving towards EU membership, though Mr Klaus may not be in power to see it through Michel Dobes/AP

**EU MEMBERSHIP** • by Robert Anderson

# Preparations come but slowly

## After a good start, the country has suffered from a crisis of resolution

The Czecb government has at last begun to take the preparation for European Union entry seriously, as it has become obvious that rather than being ahead of Poland and Hungary, the country may even be lagging behind.

The European Commission's assessment in July of the Czech application to join says: "Confident of its progress towards meeting the obligations of EU membership, the Czech Republic has at times shown signs of reluctance to acknowledge difficulties and seek a collaborative approach in resolving them."

Now the government appears to have woken up. "I feel there is now a firmer commitment since the election even though it is not often publicly pronounced," said Joannes ter Haar, head of the European Commission delegation to the Czech Repnblic. "We would, of course, like to see this commitment more openly expressed."

There is a recognition that a lot of work still needs to be done. Cyril Svoboda, deputy foreign minister, said: "We agree with the criticisms of our performance." His ministry has taken over the co-ordination of preparations for EU membership from the finance ministry and bis committee will lead negotiations with the EU, which are expected to start in March.

The Czech Republic sailed through the first of the Copenhagen criteria for membership, that of "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities". The only important caveats were regarding the lustration law – which bans members of the former Communist regime and collahorators with the secret police from puhlic service jobs – access of the press to administrative documents, and discrimination against the Romany population.

The government has promised to cancel the lustration law by 2000 wben a new civil service law will be put in place, a freedom of information law is being prepared in parliament and the cabinet has adopted a series of recommendatlons to improve the lot of the Romanies. One western ambassador said it was a shame that the wave of Romany emigration to Canada and the UK this autumn had become an international issue because the government was already taking positive action.

On its ability to take on the obligations of EU membership, the country fares less well. The commission says: "The real progress made in transposing legislation still needs to be accompanied hy concrete measures of implementation, as well as estahlishment of an effective administrative underpinning."

The EC highlighted the inefficiencies of the courts and the need to modernise and remove from politics the cumbersome bureaucracy, as well as the slowness in building a regional government system. Mr ter Haar says: "In order to effectively manage and in particular enforce the acquis (community law) a strong and efficient public service is essential."

But it is the second criterion, "the existence of a functioning market economy, as well as the capacity to cope with competitive pressures and market forces within the union", that is perhaps the most prohlematic. The commission highlighted the lack of corporate governance and the weakness of the banking and financial system, as well as the need to press on with enterprise restructuring in order to redress the trade deficit.

If these problems are not addressed and growth stagnates, the Czech Republic, which has 55 per cent of the average GDP per capita of the EU, will have great difficulty catching up with the rest of tbe union and its industry would suffer within the single market.

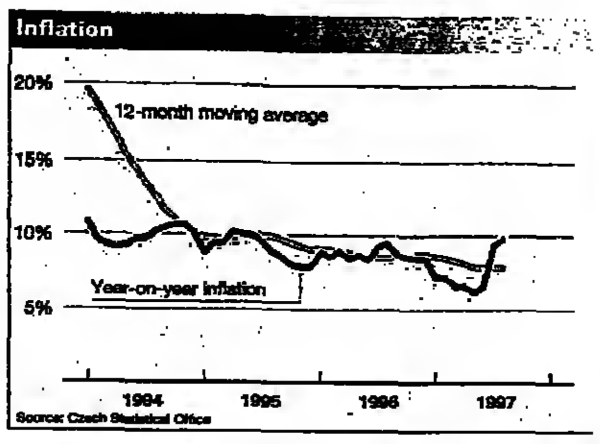
The government is addressing these concerns by setting up a stock market regulator and proposing messures to privatise the banks – cutting the web of links between them, investment funds and companies. A western diplomst said: "Things are moving in the rigbt direction but not as rapidly and as soon as we would have wished".

What the EU would also like to see is a government committed to preparing the populace for EU membership and its implications for the nation, especially since it has ruled out a referendum which would have aired these issues. Joannes ter Haar says: "There is n desire for a more substantial debate about the implications of EU membership. We should not allow the mistakes the union made in explaining itself to its citizens to happen here."

ECONOMY • by Kevin Done

# Paying the price for hesitation

## A tougher policy is planned in order to accelerate restructuring



Source: Czech Statistical Office

It has been a tough year for the Czech Republic, which was once considered the most successful transition economy in eastern Europe.

The authorities were forced to devalue the currency, ending several years of foreign exchange stability. Growth has stalled, inflation is rising, and austerity budget packages are required to bolster shaken foreign confidence.

The central bank spent $2bn in foreign exchange reserves in a vain attempt to aid the currency in May, before abandoning the fixed exchange rate system for a managed floating exchange rate. There has been an effective devaluation of 10 per cent against the D-Mark with a more substantial fall against the dollar.

The Czech Republic is paying the price for its previous failure to accelerate the pace of restructuring, for delays in reform, for its unwillingness to tackle the vexed issue of capital market regulation, and for its loss of international competitiveness as real wage increases continued to outpace growth in productivity.

The country has also been hit by natural disaster with one-third of the country affected by devastating floods in July, which in addition to the immediate human misery caused, have acted to further depress economic growth this year and increase pressures on the state budget.

Continuing tough monetary policy pursued by the central bank since the second half of last year, combined with the belated response by the embattled Czech government to tighten fiscal policy during the late spring, appear to be having the desired affect, however.

The latest trade figures show a sharp improvement in the country's export performance, a slowing in the rate of growth of imports and a shrinking of the overall current account deficit, the level of which had played a key role in undermining confidence last year.

While the better trading performance is resulting in part from the measures taken to rein in growth in domestic consumption and thus dampen demand for imports, it stems too from the recovery in demand from the country's main export markets in western Europe. The most significant recovery has been in Germany, the Czech Republic's most important trading partner, which in the first half of this year accounted for 36 per cent of its exports and 28 per cent of imports.

The cumulative trade deficit slowed to Kč103.6bn ($3.1bn) in the first 9 months, down from a deficit of Kč108bn for the same period of 1996. The deficit in September stood at at Kč5.9bn, down from Kč8.9bn in August, much better than expected and the lowest monthly deficit this year.

Exports rose by 36 per cent year-on-year in September, compared with a growth of 22 per cent in imports and, encouragingly, there is a continuing shift to higher value added exports, in particular of machinery and transport equipment.

The legacy of this year's crisis has been higher interest rates, which are still running two to three percentage points higher than before the attack on the currency in the spring. Rising inflation is running at more than 10 per cent year-on-year after falling below 7 per cent in the second quarter. The government has belatedly moved to take the painful steps to free prices in the sensitive areas of energy, transport and rents.

Ivan Pilip, the new finance minister who is rapidly emerging as a key member of the fragile coalition government following a series of reshuffles and resignations during the year, has brought a refreshing readiness to admit the government's shortcomings in its management of the economy.

"We did not heed some warnings such as the bad development in the balance of payments and worsening micro-economic results," he says. "There was also a slow-down in the privatisation effort."

The ministry of finance is forecasting a fall in the rate of growth of gross domestic product this year to around 1.5 per cent (the Czech statistics office's latest forecast is for growth of 1.8 per cent) compared with growth of 4.1 per cent in 1996 and 5.9 per cent in 1995.

"This is not a crisis," says Mr Pilip, "but it is the worst performance of recent years." He forecasts a fall in the deficit in the current account of the balance of payments to around 6 per cent of GDP this year from 7.6 per cent in 1996. (The 1996 figure has been revised downwards from earlier estimates of 8.2 per cent and 8.6 per cent).

The government is taking the necessary measures to bring the economy back into balance, including a state budget that should be "close to balance" in 1997 after the spring austerity packages and in spite of the impact of the July floods. "We made cuts of 8 per cent in expenditure in April and May with cuts of more than Kč40bn amounting to 2.5 per cent of GDP," says Mr Pilip.

He insists there will be "a balanced budget" in 1998 – it has already passed its first reading in parliament – including zero nominal increases in public sector wages, no indexation of pensions and social benefits if inflation is below 10 per cent, and a zero nominal increase in the expenditure of most government departments, except for defence.

"We think this can stabilise the economy with a balanced budget and reduced current account deficit, which will reduce domestic demand which had been pushing inflation." Combined with a renewed commitment to privatisation – including the banking sector – and tighter capital market regulation, Mr Pilip believes that economic growth can recover cautiously to between 2 and 2.5 per cent in 1998 before accelerating to between 4 and 5 per cent in 1999 and 2000.

He insists that "there is a political willingness" in the coalition government to continue with the process of economic reform.

But some financial analysts, alarmed at the political fragility in Prague, are concerned by delays in the implementation of policy changes, including a backtracking from previous commitments to ensuring a budget surplus in 1998.

**Czech economic forecast to 2001 (%)**

| | 1996 | 1997* | 1998* | 1999* | 2000* | 2001* |
|---|---|---|---|---|---|---|
| GDP (real growth) | 4.1 | 1.0-2.0 | 2.5-3.5 | 3.5-4.5 | 4.5-5.5 | 5.0-6.0 |
| Inflation | 8.8 | 9.0-10.0 | 8.0-9.0 | 7.0-8.0 | 5.5-6.5 | 4.0-6.0 |
| Unemployment rate | 3.5 | 4.5-5.5 | 5.0-6.0 | 5.5-6.5 | 6.0-7.0 | 6.0-7.0 |
| Money supply (M2**) | 9.2 | 7.0-9.0 | 7.0-9.0 | 7.0-9.0 | 8.0-10.0 | 7.5-9.5 |

After publication of two governmental packages of economic measures at the turn of first and second quarters, and taking into consideration the economic consequences of July 1997 floods. * Forecast data (from 1997 onwards) is rounded. ** Growth rate compared to previous December. Source: Komercni Banka

PROFILE The 1997 floods

# Recovery after the waters retreated


These livestock drowned near Ostrava Dan Krzywon/AP

The floodwaters may have receded, but the Czech Republic and neighbouring Poland are still counting the cost of the worst natural disaster to hit the country for over 100 years.

In the Czech Republic alone the government estimates the damage at more than Kč60bn ($1.8bn). By the end of July, floods had inundated more than 1m ha of land and had claimed 50 lives in the Czech Republic and 55 in Poland.

The disaster forced at least 180,000 people out of their homes in both countries, ruined crops, destroyed or damaged thousands of houses, public buildings and businesses. It disrupted all types of communications, as roads and railways were flooded and partially destroyed, and hundreds of bridges were washed away by rivers swollen to record levels.

The worst ever recorded flooding in the eastern region of the Czech Republic and south-west Poland came after torrential rains battered the Krkonose and Jeseniky mountains along the border between the two countries. It began with strong local thunderstorms on Friday July 4 and lasted for 6 days. Further intense rains fell later in the month on July 18-19.

During a two-week period, daily rainfalls were between 20mm and 240mm, when the normal monthly average for that time of year is only 60mm. Between one-third and half the annual average rainfall for such latitudes fell in just three days of early July with 500mm recorded in the watershed region of the Jeseniky mountains. The resulting wave of floodwater flowed north into Poland along the Odra (Oder) river and along the Morava river flowing south to the Danube.

At the peak of the flooding, "100-year flow rates were greatly exceeded" along the Odra river and its tributaries, the Bela, Opava, Opavice and Ostravice rivers according to a report from the Czech environment ministry.

In the regions of Moravia and eastern Bohemia 1,800km of roads were flooded and damaged, leaving 115km and 850 bridges in need of urgent repair. At least 48 bridges were completely destroyed, along with 23 rail bridges and 140km of track. A total of 950km of track were flooded and, by the time the waters receded, 538 cities and towns had been affected by the floods. Power supplies were interrupted to 200,000 customers, 90,000 main telephones were put out of operation, drinking water supplies were interrupted in 52 municipalities and sewage systems and water treatment plants were damaged across the region.

The Czech Republic mobilised more than 6,300 police and 1,200 soldiers with fire brigades brought in from all 77 districts of the country to cope with the immediate disaster. Between July 6 and 22 nearly 28,000 professional and volunteer firemen were in action.

The government estimates that of the Kč60bn of flood damage, more than half (around Kč32bn), was suffered by businesses, including the water authorities, with damage to state and municipal property estimated at Kč19.5bn. Damage to personal property was estimated at Kč8.5bn.

The grimy heavy industry city of Ostrava in northern Moravia with a population of 330,000 was among the areas worst hit by the floods, as it lies at the confluence of three rivers, the Odra and its tributaries the Opava and Ostravice. "River levels in the city were 6m above normal," says Vilem Adamec, chief of disaster planning for Ostrava.

"A river like the Danube was flowing through parts of the city, 15,000 people were evacuated. The water was 1.5m deep at the railway station. For one day Ostrava was only accessible by air, the water level changed very quickly as new flood waves came in, some days the water could not be measured, it was so high. The river banks are designed for a 100 years flood, but this was much worse.

"The planning system is designed for regular disasters and there is a 50 per cent reserve above this, when that is exceeded you must get catastrophe resources. No single city can have resources to cope with this.

"We had problems with traffic and food supplies – there was panic buying. A power station was under water, that was very tense until other connections could be made to the grid. The telecoms building was flooded with sewage."

Parts of the city's sprawling steel and chemicals plants were inundated and 500 tonnes of oil waste flowed out from the refinery – but was eventually contained by emergency dams before it could reach the Odra.

"It will take several years to get the city back to normal," says Mr Adamec. "There is a debate whether to rebuild in some areas, that lie in the flood plain. We must see what it is like after the winter, how buildings suffer from the frost and whether they collapse."

**Kevin Done**

**STOCK MARKET** • by Vincent Boland

# Looking beyond recent turmoil

## Companies work to reverse the problems which drove western investors away

Investors in Czech equities were having a bad year even before the Asian crisis hit emerging markets in the past two months.

A devaluation and its attendant monetary squeeze, wretched corporate results, disruptive and costly flooding, state budget over-runs and the slow pace of price deregulation all combined to keep sentiment negative towards the Prague stock exchange.

A lone bright spot could be detected in a better export climate, on which the Czech economy is heavily dependent. But it was not enough to stop the stagnation of the PX50 index of leading PSE shares, which has been drifting in a fairly narrow range for most of this year. The index this month is hovering near its 1997 low of 476.7, with trading volumes remaining modest.

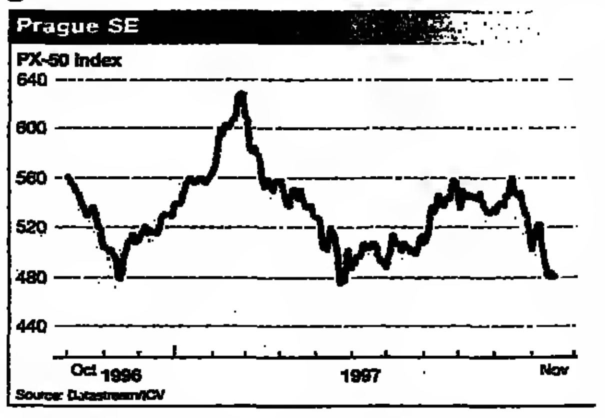
Like most markets in the region, the Prague hourse is heavily dependent on foreign investment for momentum. But the market is being bypassed as investors seek greater opportunities in Poland and Hungary, where their boisterous markets have heavily outperformed Prague's in each of the last two years.

London-based fund managers, in general, have been underweight in Czech stocks for some time, partly for reasons of deteriorating corporate and economic fundamentals and partly because of the murky trading environment that plagues the PSE. In the short term, it appears that this situation is not going to change dramatically across the market as a whole.

Danielle Downing, emerging Europe strategist at Salomon Brothers, says the Czech Republic has failed to attract the attention of the big western pension and investment funds because of the haphazard format of its reform programme. This was in contrast to Hungary, which tops most fund managers' lists of favoured locations in the region at the moment.

"Hungary did extremely well with a very specific reform package and sell-off programme. It is doing the right thing for long-term restructuring, which has drawn the attention of the big investors. The Czech Republic has not done that," Ms Downing says.

Tha limited choice of stocks the PSE offers is an additional handicap. Only three – the telephone monopoly SPT Telecom, the petrochemicals group Unipetrol, and the electricity utility CEZ – have market capitalisations in excess of $1bn, while fewer than 10 are liquid enough. The market capitalisation of the PX50 index is about $17bn.



Source: Datastream/ICV

But the biggest dampener has been a string of poor corporate earnings reports. This pattern began in the second half of 1996 and continued throughout 1997, exacerbated by declining growth in gross domestic product and May's devaluation of the koruna. Analysts say few companies have escaped the effects of the country's economic slowdown.

The domestic squeeze now looks likely to affect corporate earnings growth into next year, says Anna Bossong, head of central and eastern Europe research at Daiwa Europe. Daiwa has cut its forecasts for expected earnings growth for this year by about half, to 9 per cent, and recommends a zero weighting in the Czech Republic.

"There won't be many companies that are immune to the slowdown in the economy. There will definitely be single-digit earnings growth in 1998," Ms Bossong says.

There are some bright spots on the horizon, however. Western investors have generally welcomed the government's two austerity budgets, unveiled in the wake of the currency crisis. While the impact of these measures, which include cuts in public spending and a clampdown on high wage growth, will have been dented by the cost of this summer's serious flooding – which is estimated to have cost businesses at least Kč30bn – it is clear that the government is aware of the need for a round of fiscal tightening.

What is more, Czech exporters have been winning a number of high-quality export orders this year, especially in the engineering sector, where the top companies are beginning to emerge from a difficult period. Germany's improved economic performance should also benefit the main Czech exporters.

And there are signs that price deregulation is gathering pace. Last month the finance ministry proposed raising household energy tariffs by up to 40 per cent in each of the next two years, on top of VAT increases already announced. Both the energy sector and the industry ministry have been pushing for faster liberalisation of price controls, and this proposal is seen as going a long way towards achieving that.

Analysts are already suggesting the move, if it is actually pushed through, could lead to a re-evaluation of the rating system of the energy sector, with a particular focus on CEZ, which is still state-controlled. Jonathan Garner, emerging Europe equity strategist ot Robert Fleming, says he is now "relatively optimistic on some leading stocks," and as a result has switched from being heavily underweight to being neutral on Czech equities.

A fourth positive signal is evidence that at least some Czech companies are preparing to raise capital on the international markets, rather than through domestic banks. Bonton, a privately-held media gronp, and Ceske Radiokomunikace, a telecoms group, are planning international share offerings (Bonton recently postponed its initial public offering because of market turmoil but is likely to return early in 1998).

However, there are not yet enough such companies to make a trend, and bank privatisation and an end to the entangled shareholdings of Czech industry will be needed before Czech corporates follow their Polish and Hungarian counterparts to the international capital markets.

"A lot of companies would like to come to the equity markets but they are constrained by their shareholding structure and the poor state of the market. I'm not looking for any real improvement there," Me Bossong says.

**FOREIGN INVESTMENT** • by Kevin Done

# Need to build on early success

## Critics say not enough has been done to attract more inward investors

Last year Matsushita, one of the leading Japanese consumer electronics groups, took the plunge in the Czech Republic. It decided to invest around $66m to build its first television plant in central Europe in the industrial city of Plzen (Pilsen) in western Bohemia.

Masafumi Omoto, executive director of Matsushita Television Central Europe is delighted with the move thus far. Volume production began in April only 12 months after the land was purchased.

"This is a world record programme. We bave 26 television factories in the world and this was shortest construction period of any of them. We reacbed the first milestone of 1,000 sets a day in four months, that was also the fastest start-up of any of our plants."

The factory, producing Panasonic television sets, also reached quality levels within 4 months that had required years to attain at other locations.

By 2000 the plant should be assembling 1m sets a year with a workforce of more than 1,000, with 95 per cent of ootput being exported. One-third will he sent to western Europe, one-third to countries of the former Soviet Union, and the rest to eastern Europe and the domestic Czech market.

The success of the Matsushita plant and other similar inward investment projects is not sufficient to convince every sceptical foreign investor seeking a greenfield site in Europe that the Czech Repuhlic is tbe place to choose, however.

The competition for projects is fierce, and the country appears to be losing out at the moment in the fight to attract a $500m project planned by Intel of the US for the final stage of production and testing of its Pentium computer chips. The plant could create 3,000 jobs in the first stage and later phases could take investment towards $1bn.

The Czech Republic has been in negotiations with Intel for nearly a year, it has made the sbort-list, but there are growing fears in Prague that the paucity of investment incentives available in the Czech Republic could persuade Intel to opt for a rival site in Portugal or Egypt.

On a cumulative basis since 1989, the Czech Republic is still second only to Hungary with $7.5bn of foreign direct investment committed between 1990 and mid-1997, but the forecast for the whole of this year is for only $1bn, down from $1.4bn in 1996 and $2.5bn in 1995, when investment was inflated by privatisations in the telecoms and oil sectors.

"We are exposed to very hard competition internationally, when most economiea are trying to attract foreign direct investment to bring in modern technologies for the 21st century," says Jan Havelka, chief exectuive of CzechInvest, the investment promotion agency. "The Intel project is like that, it is very mobile, offers high technology and is independent of raw materials, cheap lahour or soft environmental regulations."

According to CzechInvest the Czech Republic is losing the fight for a lot of desirahle projects in recent years because it does not offer the lavish incentives available to attract in many competing countries.

This is a "dangerous" trend, says Mr Havelka, hecause "foreign direct investment is the only reliable source of capital and know how for the restructuring and modernisaton of Czecb industry at a time when the stock exchange is not functioning very well, debt financing is difficult because of bad debt problems at the banks, and foreign loans are risky with a floating currency."

In an effort to persuade the government to make the investment regime more attractive to future foreign interest, CzechInvest published a study in early November whicb claimed that foreign manufacturing companies are already playing an important and dynamic role in the Czech economy.

Foreign groups accounted for between 40 and 50 per cent of Czech exports of manufactured goods last year and the share has risen further in 1997, says tbe report. Some 64 per cent of the companies in the survey export more than half of their prodnction, 66 per cent were net joh creators hetween 1993 and 1996 and 38 per cent are working three ehifts a day.

Foreign concerns "provide increased competitiveness and higher growth, and the companies that are in best shape today are those that were eold to foreign concerns or are husinesses started on a greenfield site," says Mr Havelka.

To date, the government has resisted calls for it to start matching the scale of incentives offered hy other countries, however, on the grounds that such a move would be a distortion of the free market economy, hut Mr Karel Kühnl industry and trade minister, admits that "there is very fierce competition for foreign investment and we don't want to lose."

Government policy is heing reviewed, but Mr Kühnl insists that any measures will have to be non-discriminatory between foreign and domestic companies. "Investors are not really persuaded by incentives. They want a predictable and reliable legal and macroeconomic environment, they want cheap labour and good infrastructure as well as the location and industrial traditions."

Such an approach may not be enough to win the Intel project, but it was enough to persuade Matsushita, albeit prior to this year's economic turmoil.

Mr Omoto says tbat the Japanese group looked at 27 locations in the Czech Republic, Poland, Hungary and Slovakia before choosing Plzen. It was attracted by the logistics and the position at the centre of Europe – eqnidistant between Madrid and Moscow, by the country's stability with lower inflation and interest rates than in neighbouring countries, and by the foreign exchange regime, one of the most liberal in the region. The good infrastructure of the site and a well-educated workforce were also important factors.

Ahsenteeism remains a prohlem, as is the difficulty of finding suitable domestic suppliers ahle to deliver the needed components on time and with the necessary degree of quality, bnt Mr Omoto still helieves that Matsushita will be able to produce television sets in Plzen at 10 per cent lower costs than, for example, in the UK. "We can reach much higher productivity, and wage rates are a quarter of the UK level."

**Czech investment: 1990-Q2 1997****

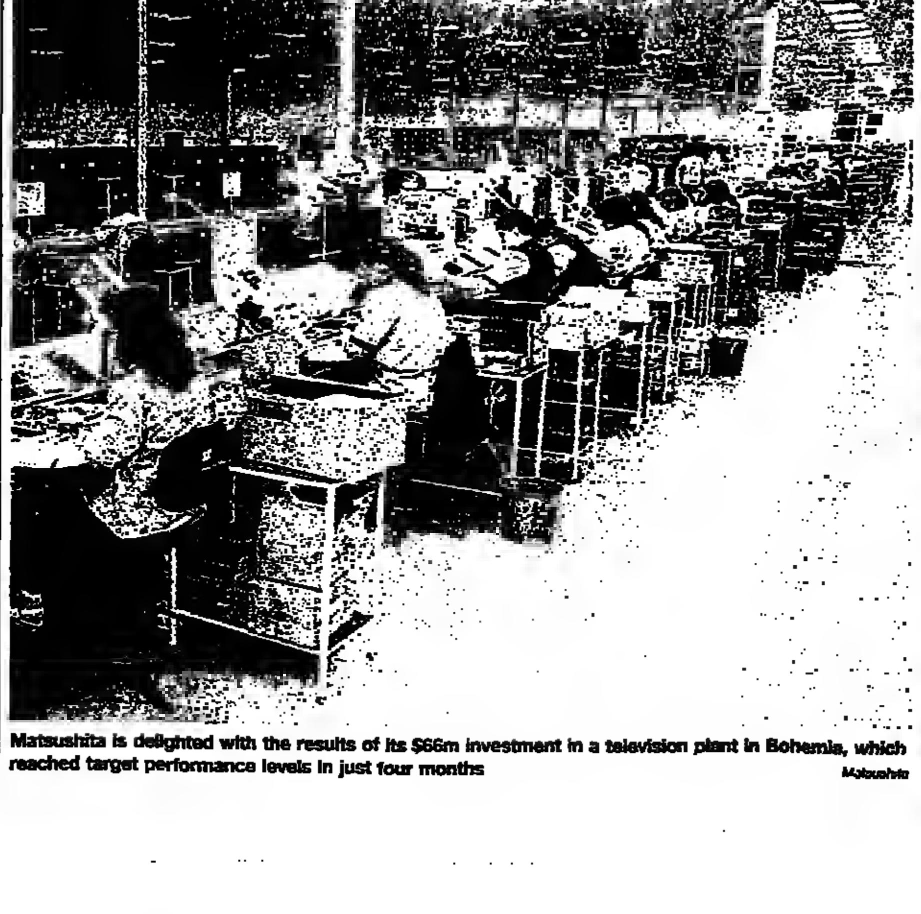
Origin of investment

| | $m | % |
|---|---|---|
| Germany | 2,094.3 | 27.8 |
| Netherlands | 1,114.9 | 14.8 |
| US | 1,099.9 | 14.6 |
| Switzerland | 851.3 | 11.3 |
| France | 549.9 | 7.3 |
| Austria | 534.9 | 7.1 |
| Others | 1,288.2 | 17.1 |
| Total | 7,533.4 | 100 |

Sector of investment

| | $m | % |
|---|---|---|
| Transport and communications | 1,551.9 | 20.6 |
| Consumer goods & tobacco | 1,077.3 | 14.3 |
| Automotive industry | 1,047.2 | 13.9 |
| Trade and services | 678 | 9.0 |
| Chemical industry | 617.7 | 8.2 |
| Banks and insurance companies | 617.7 | 8.2 |
| Food industry | n/a* | n/a* |
| Electrotechnical industry | n/a* | n/a* |
| Construction industry | n/a* | n/a* |
| Engineering | n/a* | n/a* |
| Others | 1,943.6 | 25.8 |
| Total | 7,533.4 | 100 |

* Individual statistic not available
** CzechInvest methodology
Source: CzechInvest


Matsushita is delighted with the results of its $66m investment in a television plant in Bohemia, which reached target performance levels in just four months
Matsushita

**REGULATORS** • by Vincent Boland

# An agency to fight the abuses

## Stock market corruption will finally be tackled by a new watchdog

After years of avoiding the issue, the Czech Republic finally has a stock market watchdog. In early November, parliament approved the creation of a new securities commission to oversee the operations of Prague stock exchange (PSE), which remains a classic insider's market four yeara after it began trading.

The "Commission for Securities Trading" should be up and running by next February. Its establishment was seen as an imperative in order to convince foreign investors of the safety of investing in Czech equities, after several cases of serious abuse of ehareholder rights were highlighted in recent months, and because the perception of fraud hung heavily over the PSE.

The commission is nominally modelled on the US eecurities and exchange commission. Its arrival coincides with other important moves to hring new and more thorough-going legislation to bear on the structure and management of the Czech financial sector, with wide implications for industrial ownership and the freedom of companies to choose how to raise capital.

The other measures include amendments to the banking act and to the act governing the running of investment funds, which emerged as the biggest shareholders of industrial companies after coupon privatisation. The changes are designed to break the chain of ownership that allows banks, whicb control many investment funds, to exercise undue influence over the corporate sector.

Taken as a package, the measures are the most comprehensive changes yet, and go at least some way towards meeting investor criticisms of the Czech capital markets. "The fact that they all came through at the same time has to indicate some kind of political will to move forward. It is important to acknowledge that," says Howard Golden, bead of the New York-based Central European Privatisation Fund and a critic of government inaction on cleaning up Prague's capital markets.

But while investors have generally welcomed the moves to strengthen the banking and investment fund acts, they bave been underwhelmed hy the securities commission. They have two main reservations.

The first concern is that the new institution will turn out to be a watered-down version of what was originally proposed, and remains answerahle to the finance ministry – often viewed as the biggeet obetacle to reform – rather than the market. "It is being financed by the [state] hudget rather than hy market players, so there is a question mark over its independence," says Jiri Benes, Czech equities analyst at Deutsche Morgan Grenfell.

The fear, shared hy many observers, is that this could result in the commission's heing undermined from within the ministry, factions of which have long opposed any market regulation. It could also compromise its effectiveness in estahlishing a reputation for toughness and impartiality.

The second reservation is that the commission's success depends critically on the people appointed to run it. They have not yet been named, but already some prominent leaders of the drive for capital market reform are said to have rejected overtures to sit on the commission because they believe it is not sufficiently independent of government.

"The critical question is who will run this commission. It will be extremely hard to find the right people to run it," Mr Benes says. At one point there was talk of a prominent foreign figure being asked to head the body, but there are doubts whether that would be acceptable politically.

The creation of the commission therefore sends the right signal to foreign investors, observers say, but it does not mean that such investors will come flooding back into a market many of them have been ignoring. That may take some time to achieve, and the effectiveness of the new institution may have to be demonstrated before too much trust is placed in its ability to police the market.

"The commission is a big step forward for the Czech Republic but a small step forward in terms of solving the market's problems," Mr Golden says.

By the time it is up and running, the commission will have taken over responsibility for market regulation from the finance ministry, and will have 60 people. One of its first tasks will be to review licences issued by the ministry to set up broking and dealing operation in Prague.

Tbe "all-are-welcome" policy favoured by the ministry has created bundreds of broking firms, some of which are either ignorant of or routinely flout market regulations hy trading on inside information, failing to settle trades and other dubious practices. "In the past, anyone who asked got a licence [to trade] – that was completely crazy. Prague bas more broking firms than London," says Tomas Jezek, chairman of tbe stock exchange and another advocate of reform.

Mr Jezek, who also has reservations about the commission's independence but is prepared to plough on, believes the Czech Republic now needs a takeover panel to complement the other new measures, and he has put together a proposal on the issue for the commission to adopt, possibly hy as early as next March.

Tbe panel would recommend that any investor taking a stake of more than 5 per cent in a company should disclose it, and that a takeover hid would be triggered if a stake exceeded 30 per cent. Currently the limits are 10 per cent and 50 per cent, respectively.

If all of these initiatives eucceed in getting through, and are seen to be working properly, the Czech Republic'e financial markets would he transformed. But however welcome they are, they are unlikely in themselves to hring foreign investors back. "All these things are positive factors. But the most important thing [for foreign investors] ie good company results. At this stage, these are not present," says DMG's Mr Benes.

IPB and other banks are coming under scrutiny in the run up to privatisation Sarah Murray

BANKING • by Robert Anderson

# Spotlight on sell-offs

## The government has finally decided to proceed with privatisation

The long awaited privatisation of the Czech banking sector should begin in earnest next yaar. "Wa are at the decisive period at the start of privatisation," says Richard Salzmann, head of Komercni Banka, central Europe's largest bank and the sala's prize lot.

The sale of the top four banks, which control about 60 per cent of the sector'e assets, will allow foreign banks into a highly-developed market where their influence has been marginal until now and will prepare tha sector for European Union entry.

But the sale of investični a Postovni Banka (IPB) and the three new tenders which are expected to be annomced in February will shine a spotlight on the ill-advised loans the banks mada in the first flush of privatisation of Czech industry. They also come at a time when the banks have struggled with the impact of the currency depreciation in May, the twin austerity packagea and tha consequent economic slowdown.

The government decided last month to begin the privatisation of the three banks simnltaneoualy, and to sell at least a 34 per cent blocking minority to one buyer in the case of Komercni, where it holds a 49 per cent stake, and Ceska Sporitelna, the 45 per cent state-owned savings bank. With Ceskoslovenska Obchodny Banka (CSOB), the 66 per cent state-owned former foreign trade bank, at least 51 per cent will be sold to one buyer and the bank appears keen to become the regional hub of a foreign bank's network.

Komercni and Ceska Sporitelna have fought to avoid a similar fate but they will each still be sold to ona dominant investor, with the European Bank for Reconstruction and Development and International Finance Corporation, the investment arm of the World Bank, likely to be involved.

Advisers for each sale are expected to be chosen this month and Pavel Stepanek, depnty finance minister, says: "At least one bank could be sold in 1998."

One potential hiccup is the shares given to the Slovak government in Komercni and CSOB as part of the settlement of the break-up of Czechoslovakia in 1993. There is a dispute over the exact size of the stake the Czechs are holding on Slovakia's behalf in Komercni, and CSOB, where the Slovak National Property Fund holds 24 per cent, is pursuing Kč14bn in Slovak debts in the Court of Arbitration in Washington. Both issues have become entangled with tha wider question of the assets and debts left over from the split and a prime ministerial summit in October did little to resolve them.

However, Mr Stepanek says "privatisation will be started irrespective of a deal with Slovakia" and if necessary the National Property Fund will sell only those Komercni shares (34 per cent) that are not disputed.

The government must, however, convince buyers not to greatly reduce their bids after they have examined the banks' books. In the case of IPB, which the Japanese bank Nomura agreed to buy in July, there is speculation that when the two audits are completed this month the government will have to assume some of the bank's bad assets and agree to a price as low as Kč2bn.

But at IPB, the third biggest bank, only around 20 per cent of its loans are classified, (where no interest or principal has been paid for 30 days or more). Ceska Sporitelna has 23.5 per cent and Komercni Banka a formidable 32.7 per cent.

On a large proportion of this debt – in Komercni's case Kč56bn of its Kč265bn portfolio – no interest or principal has been paid for a year. What makes the figures even more alarming is that Czech banking regulations allow provisioning for these loans to be reduced by collateral held against them. Therefore Komercni's Kč55bn of loss loans are matched by only Kč18bn worth of provisions.

There is little clear evidence of what these collaterals are really worth. Because of the ineffectiveness of the bankruptcy legislation and the political repercussions of forcing companies to close, banks have had great difficulty realising their collaterals. Komercni says it is involved in 1,010 bankruptcy proceedings involving Kč34bn of debts.

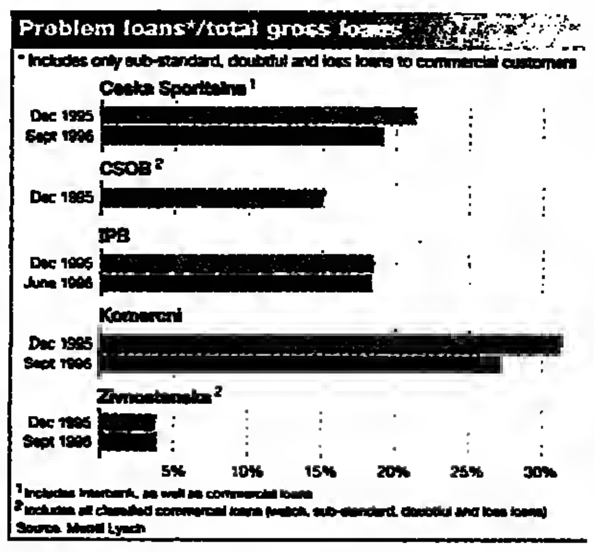
Writing off these bad debts was not possible until last year because of taxation rules and doing so quickly now will eat into the bank's assets, leaving them perilously close to falling below the required 8 per cent capital adequacy ratio. Currently, IPB has only 8.23 per cent, Sporitelna 9.9 per cent and Komercni 10.23 per cent.

It will hit profits at a time when easy earnings are becoming harder to come by as net interest margins tighten and other sources of income have not yet developed sufficiently.

The banks also suffered specific problems which damaged profits. The raising of interest rates in the spring when the national bank tried to protect tha koruna, led banks to buy short-term deposits at high prices to maintain liquidity and caused the price of their bond portfolios to slump. Komercni has made provisions of Kč1.8bn this year to reflect the fall in value of its bond portfolio and Sporitelna has put aside Kč1bn.

Tha economic slowdown and widespread flooding in July have also hurt banks. The top three have reported a severe decline in net profits in the first three quarters, Komercni by 63 per cent, Ceska Sporitelna by 20 per cent, and IPB profits by 62 per cent.

Though the trading environment is unfavourable, a more vigorous effort now to write off bad dabts, even at the cost of reporting losses, might reassure foreign investors that the banks are getting to grips with their portfolios.




[1] Includes interbank, as well as commercial loans
[2] Includes all classified commercial loans (watch, sub-standard, doubtful and loss loans)
Source: Merrill Lynch

STEEL • by Kevin Done

# Sector's rush to modernise

## The Czech steel industry is taking steps in order to compete internationally

With tha backing of an international banking consortium, Nova Hut, the largest of the Czech steel producers, has embarked on an ambitious investment programme aimed at closing the yawning gap on its western competitors.

The group faces an uphill struggla for survival, hampered by an unpromising legacy of outdated technology and a product mix ill-suited to market demands.

Helped by the recovery in steel prices, however, it is currently generating sufficient profits to fund a modernisation programma that will allow it both to diversify into higher valne added products, while also cutting pollution from its sprawling complex at Ostrava, in the north-east of the Czech Republic.

The cornerstone of the Nova Hut strategy is a $650m investment programme, to be completed by 2000, aimed at modernising its steel-making technology, improving environmental protection and shifting its product mix towards flat rather than long products.

Nova Hut aims to catch up with its western competitors Nova Hut

It includes the building of a new 1m tonnes a year steel mill for producing hot rolled coil, as well as the installation of equipment to allow the company to switch belatedly to 100 per cent continuous casting of steel, an energy-aaving technology adopted by western steelmakers many years ago.

The new hot rolled coil mill is being engineered and designed under a turn-key contract by ICF Kaiser international, the US engineering group, and should begin operations in the summer of 1999.

Whila some steel industry consultants have questioned the viability of the strategy, it has received strong and controversial backing from the International Financa Corporation (IFC), the private sector financing arm of the World Bank.

The IFC signed loan agreements totalling $250m for the project in June, the largest financing it has arranged in the Czech Republic, despite the fact that Nova Hut at the time was still primarily state-owned.

The package consists of a $75m, 12-year loan for the IFC's own account and e $175m, 10-year syndicated loan provided by a group of 17 banks from Germany, Japan, Austria, Korea, the US, France and Belgium. An additional Kč2.7bn loan has been provided by a consortium of Czech banks led by Komercni Banka.

"Our strategy is to concentrate mainly on our domestic Czech market," says Jaroslav Petros, Nova Hut chief executive, with the aim of reducing exports from the present share of production of close to 50 per cent.

Tha Nova Hnt group wants increasingly to supply the automotive industry with steel for wheels and other parts, the construction industry with light building materials and the food and beverage industries with steel for cans. The supply of crash barriers will also be important, as the Czech Republic expands its motorway building efforts.

Steps are being taken to rationalisa steel production in the whole region.

Nova Hut's rival steelmaker Vitkovice is closing its three outdated blast furnaces located near the centre of Ostrava by the end of July next year. Tha two groups have formed a joint venture, Vysoke Pece, which will be owned 66 per cent by Nova Hut and 34 per cent by Vitkovice, to take over the Nova Hnt blast furnaces. With more than 3m tonnes hot metal capacity, the former Nova Hut units will be able to supply the needs of both groups and achieve 98 per cent capacity utilisation, "the highest possible" according to Mr Patros, rather than the 70 per cent utilisation at present.

As part of the restructuring, Vitkovice is to focus its operations more towards machinery manufacturing and mechanical engineering and away from basic metallurgy, and it has also been forced to cede ownership of a 70,000 tonnes a year cold rolling mill to Nova Hut.

The acquisition is one of e aeries of moves made by Nova Hut to ensure that it has outlets for the output of hot rolled coil from its new mill from 1999. Three years ago it took e 33 per ceot share in the 70,000 tonnes a year Kraluv Dvur cold rolling mill in Bohemia, and this year it also acquired e 38 per cent stake in Alpos, a producer of welded tubes in Slovenia.

In recent weeks it has been negotiating the acquisition of the state'a 53.8 per cent stake in Valcovny Plechu, another independent 140,000 tonnes a year cold-rolling mill located near Ostrava, where Nove Hut wants to replace VSZ of Slovakia as the dominant supplier of hot rolled coil.

What remaina to be secured as a condition of the IFC loan package is the further privatisation of Nova Hut itself, in which the Czech National Property Fund has continued until recently to own a 68.3 per cent stake.

A planned initial pnblic offering of an 18.3 per cent stake aimed at bringing the state holding down to below 50 per cent foundered in the summer. Instead, the 18.3 per cent stake is being passed for a nominal sum to Credit Suisse First Boston, the international investment bank, which has been given up to two years to sell the shares.

In addition, Nova Hut top managemant haa been allowed to buy a 1 per cent stake, and a group of around 25 senior executives has been given the even greater incentive of acquiring a further 10 per cent stake for a symbolic amount, if they manage to complete the investment programma on time and, in the process, succeed in doubling the Nova Hut share price between the end of 1996 and the end of 2001.

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**BREWING** • by Robert Anderson

# Merger fever hits

## Czech brewers now want a greater share of the profitable foreign market

The Czech brewing industry is suffering from an outbreak of consolidation fever as the top companies jostle within the very competitive domestic market and seek the critical mass to export.

The clearest sign of this is the corporate battle between Plzensky Prazdroj, the market leader, and Prague Breweries, 55 per cent owned by UK brewer Bass, to take over Radegast, the country's second biggest brewery.

Six brewing groups control 23 of the country's 66 breweries, produce 70 per cent of beer and 92 per cent of exports but analysts believe eventually only two or three dominant groups will survive. Bass, currently the third biggest brewer, thinks there may be only one group that will ultimately count.

It had been negotiating with IPB, the Czech bank, to increase its stake in Radegast from 33 per cent when Nomura, the Japanese bank, agreed to buy the bank in July. Nomura halted the sale and in October bought the bank's stake in Radegast itself. IPB and Nomura are now trying to merge Prazdroj, 60 per cent owned by IPB, and Radegast, 57.5 per cent controlled by Nomura.

Bass's stake is sufficient to block a full merger but is worried that the breweries may agree an informal link-up. It is contesting the merger in the courts and in front of the competition authority.

"Consolidation of the industry is inevitably going to occur," says Graham Staley, head of Bass in the Czech Republic. "But 41 per cent (the merged group's estimated market share) and 14 per cent (Bass's share) is not competition. No one will be able to compete equally with the market leader."

The outlook for smaller Czech brewers looks bleak. Czechs are still the biggest beer drinkers in the world at 160 litres per person a year but demand is stagnant and margins extremely tight. Beer sells for as little as Kč7 a half litre in shops and pubs and brewers have difficulty raising prices above inflation because drinkers have little brand loyalty.

With input costs rising and with many breweries burdened by heavy debts after modernisation programmes, the sector is barely profitable. Twelve breweries have gone bankrupt in the last two years and Bass, for example, has yet to return a profit since it first invested in 1994.

But healthy profits are possible in the export market, where margins are twice as lucrative. Czech beer has a proud reputation – pilsener-type beer was invented in Plzen in 1842 – and even in the communist era Pilsner Urquell (made by Prazdroj) and Budvar were sold to western Europe.

Since 1989 the eastern market has collapsed but Czech brewers have begun to make inroads into western markets, especially Germany. Bass's Staropramen brand raised exports by 18 per cent in the first nine months of this year and now represents 16 per cent of its output. Nevertheless, Czech breweries only export 10 per cent of their output of 18m hectolitres and there is room for improvement.

The greatest potential may lie in a revival of eastern markets. Prazdroj, the biggest local brewer in central and eastern Europe, plans to export more than three times as much to Russia this year and wants to make two acquisitions there in the spring to add to its Ragutis brewery in Lithuania. Gambrinus, the top Czech brand, is already brewed under licence at the Hurbanovo brewery in Slovakia and will soon be produced at the Saransk brewery near Moscow.

Prazdroj is increasingly dominant on the domestic market after creating its own distribution system and output rose 20 per cent in the first nine months to 3.5m hl, giving the company a 26 per cent market share. However, it is defending its case for a merger with Radegast to the competition authority with the argument that Czech exports can only be boosted by a further consolidation of domestic production. Vladimir Perina, head of Prazdroj, says: "We must control at least 10m hl of beer or we will remain only a domestic producer".

However, Budejovicky Budvar is showing that small can be successful abroad. This year's production is expected to be only 1.15m hl but the company, which is still state-owned, sells half of this abroad.

Privatisation of the company has been held up by a dispute with the US brewer Anheuser-Busch over the trademark Budweiser. It now looks as if the company will be sold to its managers, with the state retaining a share to protect trademarks.

**TOURISM** • by Kevin Done

# Overcome by the interest

## Prague bulges with millions of tourists, while other areas are rarely visited

While Prague is bursting at the seams, other historical towns and cities of Bohemia and Moravia still struggle to attract their share of the millions of tourists, who descend on the Czech Republic each year.

The number of foreign visitors has more than doubled in the past seven years from 51m in 1991 to 109m last year, and even officials in the tourist industry have begun to reel at such growth.

"This is too much, and they all want to come to Prague. It is not possible to live in the city in the summertime," says Karel Kostrik, a specialist in the tourism division of the ministry for regional development.

Tourism officials are promoting programmes to attract more visitors to the regions. One initiative, Czech Inspiration, started in 1995 by the mayors of six cities Cesky Krumlov, Kutna Hora, Telc, Hradec Kralove, Litomysl and Policka, has taken on the aggressive subtitle "Do Not Seek Culture Only in Prague."

Officials are also trying to change the structure of the industry so that future revenue growth will come from attracting richer tourists who spend more rather than from simply increasing the numbers.

"Many young people come to drink our beer because it is cheap, but we want their fathers and mothers to come too and stay a few nights in good hotels and go to theatres and concerts or other cultural events and visit the glassworks," says Mr Kostrik.

The regions and smaller towns want to attract more tourists — Fergus Wilkie

It is a delicate balance. Tourism is big business and plays a crucial role in the Czech economy. Foreign currency income from tourism rose by 41.7 per cent last year to $4.1bn and is equivalent to about 15 per cent of Czech exports and 6.5 per cent of gross domestic product.

The pace has been a little less frenetic this year – the number of visitors in the first nine months fell by 1.1 per cent to 80.9m, partly because of the impact of the floods that inundated nearly a third of the country in Moravia and eastern Bohemia in July. But there was little relief in Prague.

One of the most beautiful medieval and baroque cities in Europe, the Czech capital receives 80m visitors a year according to Jan Koukal, lord mayor of Prague. Around 8m stay overnight in the city, for 3.7 days on average. "That is a huge pressure on the infrastructure."

The vast majority of tourists arrive by road. "We are covered with cars. There is a vehicle for every 1.7 people. There are 20 to 30 per cent more cars here than in west European cities like Frankfurt or Vienna, all in a medieval city with an urban structure from Charles IV (Holy Roman Emperor and King of Bohemia from 1346 to 1378) designed for horses," says Mr Koukal.

The Prague authorities are currently locked in negotiations with the government over the city's plans to issue a $260m eurobond to help finance infrastructure, to extend and upgrade the Russian-designed metro system, to build ring roads and stimulate home building.

Just as pressing is the need to take steps to deal with one of the biggest scandals to which foreign tourists are exposed, namely the notorious, unregulated Prague taxi business, which preys on the uninformed visitor and has spread a growing stain on the city's image.

Taxi operations were deregulated in 1995 as part of the government's expression of its belief in the free market economy. Taxis have been left to charge whatever they want, and have found rich pickings among visitors ill-prepared for such scams. "Czech legislation is a bit naive," admits Mr Koukal. "We want to have a system that is fair and visible, where the price shown is the same as the price charged."

According to Mr Kostrik in extreme cases some Prague taxi drivers have demanded up to Kč1,200 or Kč1,500 per km. "That is $40 per km. I don't think there is any city in the world with charges like that. You must pay up or be scared you might be injured by the driver. It's terrible for our image. There are good taxi enterprises too charging Kč16.50 or Kč20 per km, but taxi mafias force the cheaper taxis into the suburbs."

But relief is in sight. The Lord Mayor says that from December 1 an upper limit of Kč17 per km will be introduced in Prague. He also wants new powers for licensing both individual taxi drivers and taxi companies.

Two-and-a-half hours away in the historic medieval town of Cesky Krumlov, such concerns seem a world away. Here you walk. The remarkably preserved core of the old town centre, tucked inside a horseshoe bend of the river Vltava, is a quiet haven away from Prague at the foot of the wooded Sumava hills close to the Austrian and German borders.

Under communism this town was hard up against the closed border of the Soviet empire, visitors were discouraged, and – mercifully – it escaped development and destruction. In the wake of the velvet revolution the town authorities moved quickly to establish tight control of planning and redevelopment, as buildings in the historic centre came up for privatisation.

They are succeeding, the town was added to Unesco's list of world historical monuments in 1992, but success brings its own problems. More than 1m visitors a year are now coming to Cesky Krumlov, a town with a population of only 16,000 and only one hotel capable of dealing with a full tourist coach.

Dominating the town is the medieval baroque castle, which includes a jewel of European heritage, one of only two perfectly preserved baroque theatres dating from 1766. (The other is at the Drottningholm summer palace, near Stockholm). Conservation work on the theatre is well advanced, and some fortunate small groups of visitors are now allowed a glimpse of its splendours.

Some limited performances are planned to begin in two to three years, but Pavel Slavko, director of the castle, is determined that mass tourism should not be allowed to damage the conservation effort of a unique treasure.

The town is seeking to develop as an international cultural and conference centre with a growing number of galleries and arts festivals. "The philosophy is important," says Mr Slavko. "Because of this theatre Cesky Krumlov is exceptional and we will be looking for exceptional customers. We want to avoid fast, speculative money."

**AEROSPACE** • by Jo Cook

# An airforce for Nato

## There is some confusion as to whether fighter aircraft will be needed

The government announced in March that, as part of its preparation for Nato entry, the Czech military would require up to 36 supersonic fighter aircraft for delivery from 2003. Teams of salesmen from western defence constractors rushed to Prague to pitch for a contract potentially worth $1.6bn.

Since then a string of agreements covering industry co-operation between the western companies and Czech industrial firms have been signed.

British Aerospace and Sweden's Saab, which jointly make the Gripen, have teamed up with Chemapol Group, a large holding company. America's Boeing McDonnell Douglas, maker of the F/A-18, has lined up with Skoda Plzen, the biggest Czech engineering firm, and LOK, an aircraft repair facility. Boeing is proceeding with CSA, the Czech national airline, in preparation for a planned acquisition of 34 to 40 per cent of Aero Vodochody, a state-owned aeroplane maker. Lockheed Martin of the US has agreements with CKD, the second largest engineering firm, and the Rez nuclear research institute.

These agreements involve pledges by the aircraft makers to deliver to the Czech Republic investments, technology transfers and trade packages equal to the cost of the aircraft.

However, internal government disputes over the cost and method of procurement, together with signals from both Nato and Washington that the aircraft is not a priority for Nato entry, have cast doubt on the scheme.

Next year's state budget carries no provision whatsoever for a downpayment for the aeroplanes. That is perhaps understandable given the May currency crisis, July's extensive flood damage and the government's new austerity programme. Hungary's recent decision to postponed the purchase of western aircraft has also focused Prague's attention.

A row has also flared between the Czech defence and foreign ministries over the way in which the aeroplanes should be bought. The defence ministry favours a purchase through a domestic company, which would almost certainly be Omnipol, an arms dealer in which Chemapol has an 85 per cent stake. But the foreign ministry argues that this might complicate matters for Boeing and Lockheed, as US arms exports are conducted exclusively on a government to government basis, which cuts out the middle men and helps the Pentagon to monitor technology transfers.

On top of this, the Czech government has recently received signals from both Nato and Washington that buying expensive supersonic aircraft should not be the priority of its military modernisation programme.

A senior Nato official says: "There is no such thing as a Nato armaments policy," and that the alliance "is not suggesting that the central Europeans purchase jets."

During a recent visit to the Prague, German military officials suggested that the German airforce could provide air cover for the Czech Republic until the country can afford to buy its own jet aircraft. This suggestion was greeted with suspicion.

The debate about the whole issue has somewhat confused the Czech military and political establishments. The military men are concerned that the Czech Republic is the only country in central Europe which does not have a supersonic airforce. Hungary, Poland and Slovakia each fly Russian made MiG29s.

General Karel Pezl, president Vaclav Havel's advisor on military affairs, argues that "a supersonic airforce is part of the weapons system which the Czech armed forces must have."

Jaromir Novotny, a deputy defence minister, notes that "Luxembourg and Iceland are the only Nato members which do not have a supersonic airforce."

Concerns were raised about the possible effect postponement will have on the struggling Czech aviation industry. All the western aircraft makers have pledged to assemble or share manufacturing of their fighters with Aero Vodochody. One industry source wonders whether "the Czech aerospace industry can survive the next five years without the support that would come with procurement."

Pavel Stejskal, director of industrial projects at the Czech industry ministry, would like to see between "30 and 50 per cent of the offset programmes dedicated to the aerospace industry".

**POWER** • by Robert Anderson

# An attraction for investors

## There is real interest but the government needs to devise a clearer strategy

National Power's purchase last month of 48 per cent of Elektrarny Opatovice (EOP), a small generating company, for Kč5.3bn – the largest British investment in the Czech Republic – has highlighted the contest taking place among foreign companies to enter the Czech electricity market ahead of the next stage of privatisation.

British and German companies in particular are buying up shares in the eight regional distribution companies at high premiums so they can assess the market and get a head start when the government decides to sell its remaining holdings of just under 50 per cent.

But they are gambling on the government's intention in devising a clear energy policy setting a timetable for raising household charges from around half those charged to business users. Unless it does that, the eventual price for its stakes will be lower and the necessary investment in new capacity, environmental improvements and upgrading of the low-voltage distribution system will be delayed.

In June, following the EU lead, a cabinet committee approved the goal of creating a competitive power sector and deregulating prices by 2000, and proposed splitting the national grid from the state-owned generator CEZ. But the industry ministry is still considering the issues and there is unlikely to be a co-ordinated strategy put before the cabinet until the middle of next year.

One reason for the delay is the sensitive question of raising household power charges. In July rates were raised 15 per cent and they will increase again in January when they move from the 5 per cent to the 22 per cent VAT band. Ivan Pilip, the finance minister, proposes raising prices by 40 per cent next July and by another 40 per cent in 1999 but this goal may fall victim to electoral calculations and the intention of keeping inflation under 10 per cent.

The government also needs an independent regulator, which will control the price the regional power distributors pay CEZ for their electricity. Neither side delights in the current ad hoc pricing policy.

CEZ complains that the 1 per cent increase in prices it was given by the finance ministry this year is insufficient. Gabriel Eichler, vice chairman, says: "The price to CEZ is less than we need for our investment programme, much of it to meet environmental regulations." In their turn, the distribution companies retort that their margins are much less than in other countries at around 20 per cent.

Analysts say that only once a long-term pricing structure for buying and selling power is put in place under a regulator will the government be able to get a good price for the regional distributors. Karel Kühnl, the minister for industry and trade, partly concedes this: "Privatisation must go in parallel with removing price distortions from the energy sector and creating a regulatory system."

But privatisation itself has been the subject of cabinet debate, with the industry ministry proposing a sale to a single investor in each case and the finance ministry preferring part management buy-out and part flotation. The industry ministry appears to have won and tenders will be made in the first half of next year. Miroslav Tvrznik, deputy minister, says: "We want to choose the strategic partner. We don't want him to choose himself. We have to sell the rest of the shares together to maximise the price."

Mr Kühnl says privatisation should be completed by the end of 2000 but this timescale allows foreign investors to consolidate and risks cutting the price of the state stakes. Petr Cermak, deputy head of the National Property Fund which will sell the stakes, says: "There is a danger that the fund will be in the minority position when they are sold".

The privatisation of the state's 67 per cent stake in CEZ itself is, according to Mr Kühnl, "the final stage". Privatisation waits on the completion of the long delayed Temelin nuclear power station. Before this the government must decide whether to split CEZ from the grid to aid competition, and whether to break up its generating capacity, which produces 75 per cent of the country's power. Next year CEZ is likely to divide its operations internally but whether this will lead to a formal split is uncertain.

Mr Kühnl says: "Free access to the grid for everyone can be done without splitting CEZ. I don't have a fixed preference." Looking longer term, his deputy, Mr Tvrznik, says: "CEZ will not be privatised this century but when we do, we will have to separate production and distribution."

# Austria

The spotlight falling on Austria next year will reveal a mature and prosperous society but one also facing new political and economic questions, **William Hall** reports

## Chance to shine on centre stage

Austria has come a long way in the past 10 years. It has joined the European Union, renewed its strong historical ties with its central European neighbours after the fall of the Iron Curtain and consolidated its position as one of the world'a richest and most stable countries.

In the middle of next year it assumes the presidency of the European Union for the first time in its history. It will also take over the chairmanship of the International Monetary Fund. Both events will focus international attention on Austria and give it a chance to prove it can once again play a useful role on the world stage.

Hopefully, Austria will not bungle the opportunity as it did 10 years ago. That was a period when Kurt Waldheim, the former United Nations secretary general, was settling down to a six-year term as Austria's president and Austria was hoping to mark itself out as the leading participant in *Mitteleuropa* by bosting Expo 95, a world exhibition scheduled to open in Vienna in 1995.

The Expo failed to materialise - a casualty of Austria's notorious political infighting - and Austrians soon found that their new president, far from being "the man the world trusts", was quite the reverse, following revelations about his shady wartime record. Instead of taking its place on the world stage Austria found itself increasingly ostracised until Mr Waldheim finally retired in 1992.

Austria and its politicians are in better shape than they were 10 years ago. Franz Vranitzky, after a respectable 10-year atint as Austria's cbancellor, etepped down at the start of the year. He has, however, continued to make a useful international contribution as a Balkan trouble shooter for the Organisation for Security and Co-operation in Europe.

Viktor Klima, who was minister of finance before taking over as chancellor at the start of the year, has conqnered the country's short-term budgetary problems and is intent on addressing the longer-term issue of reforming Austria's generous pension system.

Meanwhile, Austria's economy, after a two-year hiccup, is starting to motor again and there are flattering statistics to demonstrate the country's economic and social maturity. It has the highest long-term productivity growth of any OECD country, an unemployment rate which is less than half the European average and one of the world's lowest inflation rates.

Its citizens are among the best educated in the world and its record of peaceful labour relations can only be bettered by Switzerland.

Austrian workers may be paid 15 times more than workers in Hungary and the Czech Republic, Austria's two slightly bigger neighbours, bnt it continues to attract foreign investors. More than 3,600 foreign companiea employ around 370,000 workers in Austria and recent snbstantial expansions by multinational antomobile manufacturers, such as General Motors/Opel and BMW, underline its emergence as a low-cost, high value-added member of one of the world's global industries.

However, scratch the surface a little and Austria is not quite as self-assured as it seems from the glossy brochures of the Austrian Business Agency, the state body responsible for attracting foreign investment.

The reasons for its economic success are no longer as powerful as they once were. Its system of social partnership whereby government, trade unions and employers all have a say in decision-making is proving to be more of a liability than an asset in an era of rapid globalisation.

Jörg Haider'a far-right Freedom party, now Austria's second biggest party, never misses an opportunity to test the increasing political fault-lines within Austria's coalition government of the left-of-centre Social Democrats and centre-right People's party.

If Mr Haider were to achieve his ambition of becoming chancellor after the 1999 elections then Austria might once again find itself being snubbed on the international stage as it was in Mr Waldheim's day.

Although the benefits of EU membership have not been as dramatic as once hoped, they are increasingly visible. Wifo, the Austrian Institute of Economic Research, estimates that joining the EU helped lower Austrian inflation by up to three-quarters of a percentage point in 1995.

The increased competition has also prompted an overdue consolidation in some of Austria's more exposed sectors. Since the start of the year Austria's top four banks have combined into two new groups – Bank Austria and Erste Bank. A similar sort of consolidation is expected in the utility sector.

Nevertheless, Austria still needs to create companies capable of withstanding increased European competition. The sharp increase in bankruptcies since 1996 suggests this process is well under way throughont the economy. However, large parts of the economy still euffer from too mucb bureaucratic interference.

Hannes Androsch, a former Austrian finance minister who runs several companles, says tbat over-regulation is mnch more of a problem than Austria'a high-wage costs, which in some industries now account for less than 20 per cent of total costs.

EU membership is also forcing Austria to follow the EU timetable for de-regulating key Austrian industries, such as electricity and telecommunications. It is unlikely that Austrian politicians would have faced up to the challenge of modernising these industries if Austria were not a member of the EU.

Claus Raidl, a successful Austrian industrialist wbo sits on the board of the state-owned PTT, likens the impact of deregulation as similar to a "change from a communist economy to a market economy on a small scale".

Austria's telecoms industry had been run by trades unions and its main aim was to create jobs. "Politicians decide how to maximise votes and businessmen decide how to maximise profits. The two do not mix," says Mr Raidl. This is one of the biggest problems of the Austrian economy.

The level of political interference and inflneoce in Austrian industry is far higber than in most other countries. The reason it took more than six years to sell the government's controlling stake in Creditanstalt, once Austria's most powerful bank, was because the politicians kept interfering. Talk of a need for an "Austrian solution" to the challenges raised by the deregulation of Europe's electricity industry, is another reminder that Austria's politicians are reluctant to release control over the pillars of the economy.

Helmut Kramer, director of Wifo, estimates that when Austria joined the EU less than 40 per cent of the country's gross domestic product was produced in an international open market economy. Now the figure is closer to 65 per cent. This bas begun to unleash pressures which will bave a knock-on effect on Austria's far less open political system, wbere the two main political parties have shared out many of the top jobs.

Haa OMV, tbe former state-owned oil and gas company, completely severed its political ties with the ruling Social Democrats? Is Erste Bank, Austria's second biggest bank, entirely free from the influence of the conservative People'a party? Five years ago, the answer would almost certainly have been "no".

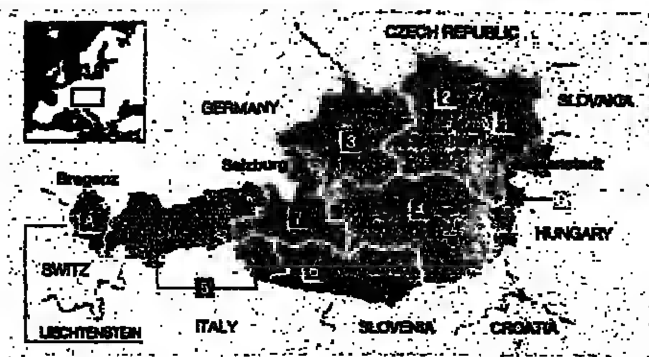
But today Austria's top companies are being benchmarked against international standards and the traditional cosy political relationships which used to characterise corporate Austria do not score high marks with international investors.

This is not the only area where Austria will be tested over the next couple of years. It takes over the EU presidency in tbe second half of next year immedietely before the launcb of the single currency. If there are any last minute problems it will be up to Austria to help iron them out.

Then there is the question of EU enlargement. Several of Austria's poorer neighbours would dearly love to join the EU. There are good historical reasons wby Austria should actively promote their membership. But there are equally strong short-term reasons, such as Mr Haider's rantings about Austria being overrun by eastern European immigrants, which might tempt Austria to turn its back on its old allies.

Finally, there is the question of Austria's membership of Nato. If Hungary and the Czech republic want to join can Austria afford to be left out on the grounds of its neutrality?

It will be answers to questions such as these that will determine whether Austria really has come in from the cold.




- Area: 83,859 sq km
- Language: German (with small Croat and Slovene-speaking minorities)
- Population: 8,046,536 (1996)
- Currency: Schilling (Sch)
- Exchange rate: 1996 average $1= Sch 10.5841; Nov 24 1997 $1 = Sch 12.2127

| | Province | Capital | Population | % of total | GDP (% of total) | Industrial growth* | Population growth** |
|---|---|---|---|---|---|---|---|
| 1 | Vienna | Vienna | 1,592,000 | 19.8% | 28.8% | -3.0% | 4.0% |
| 2 | Lower Austria | St Pölten | 50,000 | 18.9% | 16.1% | 0.7% | 6.6% |
| 3 | Upper Austria | Linz | 203,000 | 17.2% | 16.3% | 3.9% | 9.0% |
| 4 | Styria | Graz | 238,000 | 15.0% | 11.9% | 9.9% | 1.8% |
| 5 | Tyrol | Innsbruck | 118,000 | 8.2% | 8.2% | -2.4% | 12.5% |
| 6 | Carinthia | Klagenfurt | 91,000 | 7.0% | 5.6% | 10.7% | 4.9% |
| 7 | Salzburg | Salzburg | 144,000 | 6.3% | 7.0% | 2.2% | 14.9% |
| 8 | Vorarlberg | Bregenz | 27,000 | 4.3% | 4.4% | 5.9% | 12.7% |
| 9 | Burgenland | Eisenstadt | 10,000 | 3.4% | 2.7% | -1.0% | 1.9% |

* 1995 figures ** 1981-1995

### Constitution

- Form of state
Federal republic of nine provinces
- Legal system
Based on the constitution of 1920 as amended in 1929
- National legislature
Bicameral. National Assembly (Nationalrat) of 183 members directly elected by proportional representation, with seats distributed in three stages: regional (43 regional districts), provincial (nine provinces) and federal. Federal Assembly (Bundesrat) of 63 members elected by provincial parliaments
- Electoral system
Universal direct suffrage over age 18
- National elections
December 17 1995; next election due by December 1999
- Head of state
President, directly elected for a maximum of two six-year terms, with no executive powers peace time. Currently Thomas Klestil, elected in May 1992
- State legislatures
Nine provincial parliaments, each of which appoints its own provincial governor
- National government
Council of Ministers headed by federal chancellor appointed by president. Currently a coalition of Social Democrat Party and People's Party

### Economic summary

| | 1997 Estimate* | 1998 Forecast* |
|---|---|---|
| Total GDP, nominal ($bn) | 198.3 | 192.9 |
| Real GDP growth (annual % change) | 1.6 | 2.6 |
| GDP per head ($) | 24,290 | 23,810 |
| Inflation (annual average % change in CPI) | 1.8 | 1.9 |
| Real wage growth (annual % change) | 1.0 | 1.0 |
| Industrial production (annual % change) | 4.5 | 5.2 |
| Unemployment rate (% of workforce) | 7.1 | 7.0 |
| Government budget deficit (% of GDP) | 3.0 | 3.0 |
| Government debt (% of GDP) | 72.8 | 73.0 |
| Current account balance ($bn) | -3.9 | -3.8 |
| Merchandise exports ($bn) | 70.0 | 74.4 |
| Merchandise imports ($bn) | 76.7 | 81.2 |
| Trade balance ($bn) | -6.7 | -6.8 |

* EIU

Trading partners (share of total trade to world, 1996)

| Imports | | Exports |
|---|---|---|
| 70.8% | EU | 64.2% |
| 10.0% | Eastern Europe | 15.5% |
| 7.2% | Asia | 6.8% |
| 5.1% | North America | 3.9% |
| 4.3% | Efta/rest of Europe | 6.9% |
| 0.7% | Latin America | 1.1% |
| 1.8% | Africa | 1.0% |
| 0.1% | Australia/Oceania | 0.8% |
| Total Sch 712.8bn | | Total Sch 612.2bn |

Sources: Bank Austria, Wirtschaftskammer Österreich, EIU, Europa, Datastream/ICV

**POLITICS** • by Eric Frey

# Consensus keeps Freedom at bay

## The governing coalition will endure as long as Jörg Haider remains a threat

The "grand coalition" between the liberal Social Democratic and conservative People's parties that has ruled Austria for 11 years is no longer that grand. Both parties have been constantly losing ground to the smaller opposition parties but, nevertheless, the alliance seems stronger today than it has in years.

The two partiee came together in 1986 to keep the populist Jörg Haider, wbn had just become chairman of the far-right Freedom Party, out of power. They succeeded in leading Austria into the European Union in 1995 and then prepared the country for membership in the first round of European monetary union.

Even though both parties often seem tired of their uneasy partnership, their leaders are determined to stay together, at least until the next elections in 1999.

Next year is gearing up to be a critical one for Austria with a presidential election, the European Union presidency in the second half, a key decision on whether Austria should abandon its traditional neutrality and join Nato and the start of the single European currency. The only alternative to the current coalition would be a hazardous partnership of the junior People's Party with Mr Haider, who once opposed EU membership and now wants to keep Austria out of Emu.

The government of Chancellor Viktor Klima, a Social Democrat, and vice chancellor Wolfgang Schüssel from the People's Party, can also point to significant achievements in recent months.

After getting Austria's budget deficit down to meet the 3 per cent Maastricht criteria for monetary union, the coalition tackled the reform of the pension system. Even though it was forced to water down its original proposals tbe long-term costs of public employee pensions were significantly reduced.

The relationship between tbe two parties also improved after Mr Klima, the former finance minister, took over from long-term chancellor Franz Vranitzky in January. As a gesture to the People's Party, Mr Klima decided not to put up a candidate to run against Thomas Klestil, the federal president, when he runs for re-election next April.

Many Social Democrats are angry that their party will effectively not take part in next year's campaign and few party officials are willing to actively support Mr Klestil. But Mr Klima hopes to spare his party an embarrassing defeat and to secure a continuation of the current coalition after the next elections. Mr Klestil is a strong supporter of the left-right coalition and intervened several times to prevent Mr Schüssel from joining up with Mr Haider.

Running against Mr Klestil are Heide Schmidt, the sharp-tongued leader of the small Liberal Forum who left Mr Haider's party four years ago and is now his toughest critic, and Richard Lüer, a maverick real-estate developer and socialite. If Mr Klestil scores less then 50 per cent and is forced into a run-off, it would be an embarrassment for him. There is a question mark whether Mr Klestil, whose health is poor, can keep up in a genuine campaign.

Just before the presidential poll, the coalition's deadline for deciding on its future defence and security policies is due. The People's Party wants Austria to join both the West European Union (WEU), the EU's defence arm, and Nato, while most Social Democrats reject membership of any military alliance.

Mr Klima is believed to have some sympathy for the Nato option but seems unwilling to take on the party's grass roots on that issue. Surveys show that a clear majority like the idea of neutrality, whicb has served Austria well since 1955, and do not want defence spending to rise from the paltry level of 0.9 per cent of gross domestic product.

If the People's Party falls to get its way on the Nato issne, Mr Schüssel still hopes to gain political credit during the six month EU presidency that starts in July 1998. Austria is the first of the new union members to assume the presidency and key decisions on eastern enlargement and internal reform are expected during that period.

The government believes it can then revive public enthusiasm for the EU, which waned quickly after the 66 per cent vote in favour of membership at the 1994 referendum. Austrians are also unsure about Emu but are, mostly, accepting it as an unavoidable fact. A petition by Mr Haider's Freedom Party in early December calling for a referendum on the Euro is unlikely to receive much support.

Mr Haider is still riding the anti-European wave successfully. The former governor of Carinthia, who was forced out of his position after praising the employment policies of the Nazi regime, also dominates the political headlines with his populist rhetoric and his diatribes against powerful elites and powerless foreigners. He criticises the two bigger parties for not moving ahead with reforms. However he appeals to the older and less educated people who are most likely to lose from economic and social modernisation.

The Freedom Party gets as much as 30 per cent in opinion polls and regularly beats the People's Party, which is now in third place but remains the main political force in the provinces.

A growing number of people see Mr Haider as chancellor after the 1999 elections. For the majority of Austrians, as well as Austria's European partners, this prospect is a nightmare.

**PROFILES** Four top politicians

### Viktor Klima

Viktor Klima, who became Austrian chancellor in January following the surprise resignation of Franz Vranitzky, has promised that there will be a change from the cautious ways adopted by his long-serving predecessor.

The former top executive of oil and gas group OMV, who held the posts of transportation and finance minister under Mr Vranitzky, is a believer in quick, decisive action.

His first speech in parliament was laced with English business school terms and his pragmatic vision was modelled all too obviously on British Labour leader Tony Blair.

Almost a year later, Mr Klima, 50, has still not lost his popularity or his smile, but his image as a "doer" has been dented by the realities of governing.

As a minister he belonged to the modernist wing of the Social Democratic Party but he was also close to the trade unions.

However, after a bruising battle over pension reform, he has lost some of the trust of these comrades.

On the other hand intellectuals criticize his populist rhetoric and his constant play to the tabloid press.

Nevertheless, Mr Klima has proved himself more skilful than Mr Vranitzky in handling the fragile coalition with the conservative People's Party.

He comes across well on the television and he might be the only mainstream politician who can hold his own in a debate with the forceful far-right leader Jörg Haider.

Mr Klima is a ferocious, late-night worker who still loves to go on exotic jungle trips with his attractive second wife, Sonja.

### Wolfgang Schüssel

Wolfgang Schüssel was once the golden-boy of Austrian politics. But since the former economics minister was picked in 1995 to lead the conservative People's Party, his smile has become bitter. A few months later he left the coalition with the Social Democrats over a budget dispute and called a snap election. He lost and resumed the coalition as vice chancellor and foreign minister.

Mr Schüssel, 52, can rightfully claim that the government's economic policies are, to a large part, his own but he gets little credit for that. His party has slipped to third place in the polls, behind Jörg Haider's far-right Freedom Party, and he is frequently challenged from within the party ranks.

When he was overheard by journalists last summer making insulting remarks about Bundesbank president Hans Tietmeyer and other foreign politicians his popularity hit a new low and he became increasingly isolated. But the conservatives, who have had four chairmen over the past decade, are in no mood for a leadership fight.

Mr Schüssel who loves colourful bow ties has been in politics all his life. He served as secretary general of the Austrian Business Federation, a sub-organisation of the People's party, where he was touted as a rising star.

He can dazzle an audience with his eloquence and is a tough negotiator. He is counting on using these skills in the second half of 1998, when Austria has the EU presidency, to provide a bonus for the national elections in the following year when he aims to prove the doomsayers wrong.

### Jörg Haider

After years of rabble-rousing rhetoric, Jörg Haider, is softening his tone to gain respectability. Mr Haider, Europe's most successful far-right populist, has managed to push his Freedom Party from 4 per cent to nearly 30 per cent over the past decade.

In some regions, his party is already the strongest force. But his attacks against elites and foreigners and occasional statements in which be seemed to support Adolf Hitler's policies frightened off potential coalition partners and have kept him out of power.

Mr Haider, who looks younger than his age of 47, wants to become chancellor after the next election in 1999. So he has replaced Germanic nationalism with Christian values in his new party platform and focused on conservative free market ideas in his latest book. He has also launched a drive against the single European currency in which Austria is set to participate. This reinforced his image as an opportunist who will use any popular cause to win votes.

He remains a formidable force in Austrian politics. The son of a low-level Nazi official, he is by far the best speaker and has an uncanny talent to spot the weakness of his opponents. He remains the favourite of protest voters who are tired of the institutionalised collusion between the two established parties, the Social Democrats and the People's Party and the petty corruption it breeds.

But even his supporters do not yet trust him to lead a government. In the next few years, Mr Haider hopes to prove them wrong.

### Thomas Klestil

Thomas Klestil is the clear favourite for re-election in next spring's presidential elections. But it has not always been such a smooth ride for the former career diplomat, who won an upset victory in 1992 as a dark horse candidate for the conservative People's Party. An alleged extra-marital affair with an aide caused the break up of his marriage and made him unpopular among women.

Last year, Mr Klestil, who just turned 65, fell severely ill with pneumonia and was out of the office for almost a year. But he slowly recovered and soon made clear he would be running again.

Mr Klestil has suffered political setbacks, as well. He failed in his efforts to turn the largely ceremonial post into a true centre of power and his ardent advocacy for Nato membership did not convince the sceptical Social Democrats or the majority of Austrians.

But the pomp-loving president remains a respected moral anthority and an effective emissary for Austrian interests in the EU and beyond. His main contribution to domestic politics has been his efforts to preserve the coalition between Social Democrats and the conservative People's Party, thus keeping the far-right populist Jörg Haider out of power. Mr Viktor Klima, the Social Democratic Chancellor, thanked him by not putting up a rival candidate for the presidency next year.

Mr Klestil still has to guard his health and was told by his doctors to avoid a strenuous campaign. Even though he is not everyone's darling, he will probably get his way.

**SOCIAL PARTNERSHIP** • by Eric Frey

# On balance, too good to throw away

## Tensions are evident but consensus is likely to remain dominant

Social partnership is often referred to as Austria's greatest political achievement. The system of constant consultation between employers and employees set up after the second world war prevented labour unrest and kept wage costs relatively low. It also helped to fuel an economic boom that lifted Austria from the bottom to the top of the income rank in western Europe.

But in recent years, social partnership has come under increasing strain. During the recent reform of the pension system by the government of chancellor Viktor Klima, trade unions came close to revolting. A compromise was finally agreed but the conflict increases doubts as to whether the system will survive into the next century.

Social partnership was a result of the calamitous experience of the 1920s and 1930s, wben class conflict erupted in civil war, paving the way to Austria's surrender to the Nazis. After 1945, politicians on the left and right, many of wbom had been in Germany's concentration camps, wanted to avoid confrontation.

The Socialist Party, now Social Democratic Party, and the conservative People's Party formed a coalition which has governed the country for 30 of the past 50 years.

Most of the heavy industry in eastern Austria was nationalised to prevent its expropriation by the Soviets and trade union officials were given as much power as state managers. The trade unions also received a strong voice in the running of private companies. Labour laws gave workers' councils input into all management decisions and guaranteed seats on the supervisory boards of joint stock companies.

Wages for each industry were agreed in nationwide negotiations. The unions were much too powerful to be radical – their leaders sat in parliament and filled important cabinet positions.

Several other social partnership institutions were eet up. Austrian law requires that all employees belong to the "labour chamber" and every business must be a mamber of the "economics chamber". Similar compulsory membership in chambers exists for doctors, lawyers and farmers. These chambers also serve as service institutions and economic think-tanks.

Most new laws are first prepared in separats social partnersbip commissione wbere experts from tbe labour and economics chambers provide input.

For many years, the system worked extremely well. Strikes were almost unheard of, as unions accepted relatively modest wage increases in return for job guarantees. This helped to keep inflation down and made Austrian industries more competitive.

Until the 1980s, Austrian workers offered comparable skills to their German colleagues at lower cost. As Austrians watched the walkonts in Italy, France and the UK, they grew to cherisb their system of social harmony and dialogue.

But the success of social partnersbip could not hide its drawbacks. In all leading institutions – the state-owned companiee, the monopoly television company, and the central bank – jobs were evenly split between candidates from the Social Democratic and the People'e parties.

Membersbip in either party became a prerequisite for a career in the vast public sector. Trade union power prevented the restructuring of loss-making companies and the economics chamber made sure that an elaborate system of rules and licences would reduce competition.

The first big shock to social partnership came in the mid-1980s with the near collapse of the state-owned industries. The government was forced to lay off thousands of workers and prepare for the privatisation of areas once seen as the fiefdom of local trade unionists.

As the Social Democratic and the People's Party revived their coalition in 1986 to keep tbe populist Jörg Haider out of power, the partnership between the two big political camps was viewed with increasing scepticism by the voters.

Both parties lost votes to Mr Haider's Freedom Party, as he attacked the privileges of the party elites. When he uncovered the excessive salaries and pensions of some provincial labour chamber officials in the 1994 campaign, it contributed to the worst election result ever for the Social Democrats.

As economic growth slowed, the annual wage negotiations became increasingly bitter. Employers refused to give job guarantees in troubled industries, and union leaders, especially in the cosseted public sector, came under pressure from members to fight for better wage deals. When Mr Klima and bis deputy, Wolfgang Schüssel from the People'e Party, decided to tackle pension reform this summer, they purposely did not consult with the unions.

This tactic backfired as the unions abandoned their usual co-operation and mobilised support against any cuts in the pension benefits. The biggest outcry came from the public sector where employees had the most generous benefits and, therefore, the most to lose.

In the end, Mr Klima did not push through a reform against union opposition but negotiated a last-minute compromise. He probably had no choice: a third of all coalition party MPs are close to the unions. They could have blocked the bill in parliament.

Open clasbes between interest groups might eventually replace the current system, where lobbying takes place behind closed doors in the main parties.

Union membership is falling and the labour movement might strike more often but Austria is likely to remain a place of consensus politics and little labour unrest. Social partnership is too good to throw away.

INDUSTRY • by William Hall

# Intent on maximising hidden strengths

## Privatisation and modernisation underpin improvement in the sector

Austrian industry is one of the country's best-kept secrets. International visitors know all about Vienna's Spanish Riding School and Mozart's home town of Salzburg. But it is now the sound of industry, rather than the sound of music, which keeps cities such as Salzburg, home to Sony's biggest CD plant, humming.

One reason for the low international profile of Austrian industry is that there are very few Austrian multinationals on the world stage. In addition some of its most successful companies are branches of foreign-owned multinationals, such as Siemens.

Think of Austrian industry and steel, chemicals, paper-making and engineering – big basic industries which are often in long-term decline – will spring to mind. This picture is encouraged by a glance at the market capitalisation of Austria's top five industrial companies – OMV (oil and gas), VA Tech (engineering), Wienerberger (bricks), VA Stahl (steel) and Böhler-Uddeholm (special steels).

There are no fast-growing drugs companies, such as Switzerland's Novartis, or giant consumer goods companies like Nestlé. Most of the new names on the Vienna stock market are former nationalised industries. There is no equivalent of California's Silicon Valley with small, high-tech companies anxious to catch the international investor's eye.

Austria's industrial development often seems stuck in a time warp, displaying more in common with eastern than western Europe. The big employers were the heavily politicised state-owned industries which rated success in terms of numbers employed rather than return on equity. However, this has changed dramatically over the past decade and Austria's industrial sector is being rapidly modernised.

Austria may lack the big household names but it has a wealth of medium-sized manufacturing companies which is why, in the first half of the current decade, Austrian industrial production grew twice as fast as the European Union average. Only Ireland, Norway, Finland and Sweden did better.

Some industries, such as textiles and food processing, have shrunk considerably but production of raw steel, paper and rolled goods has continued to climb despite growing competition from low-cost eastern neighbours.

According to the 1996 statistical year book of the Austrian "Wirtschafts kammer" (economic chamber), the total number employed in the Austrian economy has risen by more than 100,000 to 2.1m over the past 15 years. However, during that period the industrial workforce fell by more than 150,000 to just over 500,000.

Employment growth has been in the service sector but, even after the shake-out, Austrian industry still employs more than four times as many people as banking and insurance and more than twice as many as tourism.

One reason for the shrinkage in the industrial workforce has been strong productivity growth. But, according to Erhard Fürst, head of economic policy at the Federation of Austrian Industrialists, there is a good chance that the steady decline in numbers employed in Austrian industry could be reversed next year for the first time in many years if industrial output grows faster than underlying productivity growth rate of 4.5 per cent a year.

Mr Fürst notes that Austrian industry has countered the growing competition from its low-cost eastern European neighbours by moving up the quality curve. The low-tech parts of the chemicals and machinery industry have migrated to cheaper sites in neighbouring countries. But the fact that Austria still has a trade surplus with its immediate east European neighbours suggests its industry is holding its own.

Claus Raidl, chief executive of Böhler-Uddeholm, a former state-owned company, describes his company as a "pharmacy" for the world steel industry. It sells its products by the kilo rather than by the tonne and relies increasingly on its quality brand name to consolidate its global position in niche areas.

Tool steel may only account for 0.1 per cent of the world steel industry but Böhler-Uddeholm has about 30 per cent of the European market. Barriers to entry are high and the business has many high-tech characteristics, with management skill concentrated in handling the chemistry and metallurgical properties rather than maximising economies of scale.

"We have shown that we can run a multinational company and make money in a mature business," says Mr Raidl. His company has roughly halved the size of its Austrian workforce since the start of the decade and now employs more people outside Austria than in its traditional home market.

The Böhler-Uddeholm story, of substantial restructuring followed by expansion in niche areas, is far from unique in Austria as the old, nationalised industries adjust to increased global competition. In addition, there are a number of private sector companies – Wolford, Best Water Technology, Wienerberger and Rosenbauer among them – which have established leading positions in world markets.

Austria still suffers from a shortage of home grown high-tech growth industries, a lack of young entrepreneurs and a shortage of venture capital.

Its universities still seem far more interested in pumping out public officials than entrepreneurs.

But its industrial sector is well aware of its weaknesses and is intent on maximising its traditionally well-hidden strengths.

**Austria's leading employers**

| Company | Headquarters | No. of staff | Industry |
|---|---|---|---|
| Austrian Railways | Vienna | 58,960 | State railway |
| Post & Telekom | Vienna | 58,326 | State postal service |
| Spar | Salzburg | 22,402 | Retail |
| Siemens | Vienna | 20,173 | Electronics |
| Billa | Wiener Neustadt | 20,098 | Retail |
| Bank Austria | Vienna | 18,700 | Banking |
| VA Tech | Linz | 16,695 | Engineering |
| Wiener Stadtwerke | Vienna | 15,082 | City utility |
| VA Stahl | Linz | 14,795 | Steel |
| Strabag | Linz | 10,541 | Construction |
| Radex Heraklith | Vienna | 10,463 | Building materials/engineering |

Source: News Magazine

**Austria's leading companies**

September 1997

| Company | Market capitalisation Sch bn | Sector |
|---|---|---|
| Bank Austria | 60* | Banking |
| OMV | 50 | Oil & gas |
| VA Tech | 41 | Engineering |
| Erste Bank | 30* | Banking |
| EA Generali | 24 | Insurance |
| Wienerberger | 23 | Building materials |
| VA Stahl | [illegible] | Steel |
| EVN | 17 | Utility |
| Verbund | 13 | Utility |
| Böhler-Uddeholm | 12 | Engineering |
| Austria Tabak | 11 | Tobacco |
| Mayer-Melnhof | 9 | Packaging |
| Flughafen Wien | 8 | Airport |
| AUA | 8 | Airline |
| Brau Union | 7 | Brewing |
| Radex Heraklith | 7 | Building mats/engineering |

* FT estimate

Source: Vienna Stock Exchange

PRIVATISATION • by William Hall

# Offerings gratefully received

## The programme has raised nearly Sch30bn and boosted the stock exchange

Austria's greatest industrial success story over the past decade has been its privatisation programme.

The government has raised close to Sch30bn of extra revenues over the past five years alone, several near bankrupt companies have been revitalised and investors who bought into the inital public offerings have done very well.

It started in 1987 with the sale of a 15 per cent stake in OMV, the state-owned oil and gas company, whose origins can be traced back to the Soviet oil administration in Austria during the 1945-55 occupation.

OMV was floated at Sch440 a share and the shares have roughly quadrupled in value.

Since that first sale, another 50 per cent of OMV's equity has been sold and private investors have bought the bulk of the shares in companies ranging from VA Stahl, the country's biggest steel company, to Vienna airport.

Some, such as VA Tech, heve already established themselves among the leading international companies in their field. Others, such as Austria Mikro Systems, a micro-chip producer, have had their ups and downs.

However, the shares of all Austria's main privatisation issues are standing at a handsome premium to their initial flotation price.

Indeed, Erich Becker, who runs the privatisation programme at Osterreichische Industrieholding AG (OIAG), the state holding company, estimates that if investors had taken part in the IPOs of OMV, VAE, AMS, VA Tech, Böhler-Uddeholm and VA Stahl, they would have trebled their money over the past decade.

Privatisation issues have accounted for nearly half of all the new capital raised on the Vienna stock exchange over the past four years and accounted for almost half of total stock exchange trading volume in the first nine months of 1997.

However, investors are not the only ones to have benefited from privatisation. It has led to a big change in the corporate culture of the companies concerned.

When they were state-owned these companies made investments and acquisitions which were not the best and were reluctant to pay out dividends, says Mr Becker. Now, Austria's privatised companies have to earn profits to pay dividends and this is proving a good management discipline.

Instead of measuring themselves by how many people they employ or by the size of their investment budget, return on equity is now the key benchmark. Privatised companies which did not pay adequate attention to Anglo-saxon style investor relations were quickly penalised.

With the recent sale of half the government's stake in Austria Tabak, the former state tobacco monopoly, Austria's privatisation programme is starting to slow down.

Over the next couple of years the government is expected to sell more of its shares in Vienna airport and Austrian Airlines. The state publishing company and Vienna's Dorotheum auction house, one of the oldest in Europe, are also likely to go on the block.

Still to come is the PSK, the Postal Savings Bank, and tha state-owned telecoms operator. There are also plenty of utilities owned by local provincial governments and cities as well as Austria's state-owned railway network.

But the political problems surrounding these concerns are considerable. So the role of the OIAG is changing. It retains substantial minority stakes in most of the companies it has privatised and intends to remain a long-term core shareholder. If the privatised companies increase their capital, the OIAG's stake is diluted.

But it likes to retain a long-term shareholding relationship and, often, boardroom representation with the companies it has privatised.

**Leading privatisation issues**

| Issue | Size Sch bn | |
|---|---|---|
| VA Tech | [illegible] | [illegible] |
| Austria Tabak | 4.9 | 1997 |
| Böhler-Uddeholm | [illegible] | [illegible] |
| OMV* | 3.7 | 1996 |
| VA Stahl | [illegible] | [illegible] |
| Vienna airport* | 2.7 | 1995 |

* Secondary offerings

Source: FT research

**ECONOMY** • by William Hall

# Export-led boost aids a return to old vigour

## A belt-tightening budget is squeezing the deficit into Emu shape

If you want a simple overview of the strengths and weaknesses of the Austrian economy, a good place to start is the Austrian Museum for Economic and Social Affairs, a short tram ride from the centre of Vienna. It believes that easy-to-read graphs and charts are far more understandable for the non-expert than the heavy-weight economic commentaries from Austria's leading banks and research institutes.

The charts* show that, in 1996, Austria's unemployment rate of 4.4 per cent was the second lowest in the European Union; its inflation rate of 1.9 per cent was well below the EU average and only Italy had a slower rate of economic growth than Austria. The charts show Austria has the third highest labour costs in the EU but also one of the lowest levels of strikes. In terms of GDP per capita it is now the fourth wealthiest EU member after Luxembourg, Denmark and Belgium.

But at the end of world war two, Austria's GDP was almost half the size it was at the start of world war one. Austria had a lot of catching up to do which explains why, for most of the post-war years, it was growing faster than the European average.

However, Austria is starting to pay the price of economic success. Its budget deficit, which had averaged around Sch100bn a year in the second half of the 1980s, more than doubled in size in the first half of the 1990s and government debt has roughly trebled over the past decade. Social security spending is among the highest in Europe and the number of pensioners per 1,000 insured persons has risen from 339 in 1960, to 616 in 1996, helped by very early retirement dates for old age pension eligibility.

This background, with Austria's determination to meet the Maastricht criteria for Emu membership, helps explain why the Austrian government slammed on the brakes two years ago.

It passed a two-year budget for 1996/97 designed to cut Sch100bn from the deficit with one third coming from extra revenue and two thirds from spending cuts. The aim was to reduce the deficit from 5 per cent of GDP in 1995 to 2.7 per cent by 1997. Under the second two year budget, announced in July, the deficit should drop to 2.6 per cent by 1999.

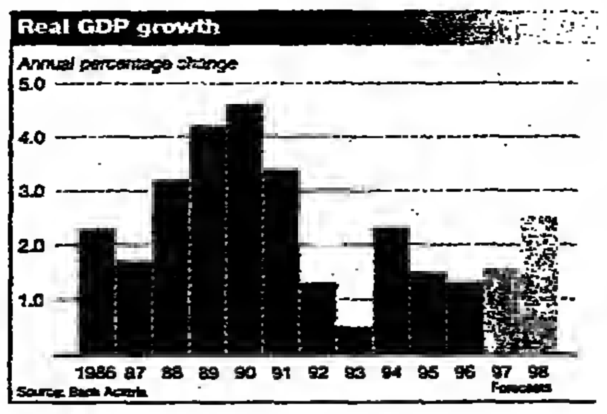
The OECD has praised Austria for achieving the "largest fiscal stabilisation programme in its history" and, although this has meant it has lagged behind the rest of Europe in the economic growth stakes, the consequences of the economic belt-tightening have not been as bad as feared.

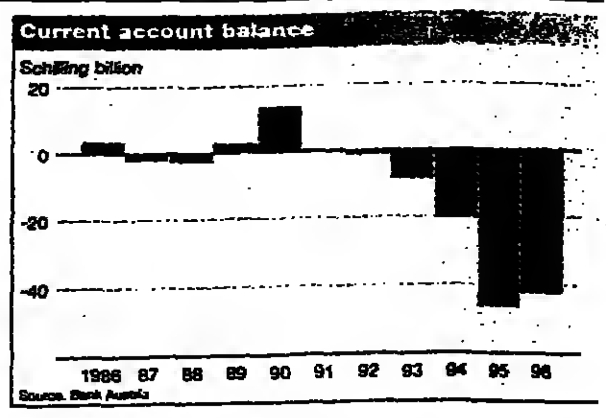
There is little doubt that Austria will fulfil the requirements for membership of the single European currency and the Austrian economy is well on the way to recovering its old vigour.

Klaus Liebscher, a former banker who became president of the Austrian National Bank in 1995, says the Austrian economy is "much better than a year ago". It is still growing less quickly than the EU average but he expects the growth rate to accelerate from just under than 2 per cent this year, to 2.5 per cent in 1998 and probably more than 3 per cent in 1999. The latest European Commission forecast is even more optimistic with a growth rate of 2.8 per cent for next year, rising to 3.3 per cent in 1999.

Fortunately for Austria, strong export-led recovery has helped dilute the deflationary effects of its budget belt-tightening. The economies of Austria's main trading partners have been recovering and favourable exchange rate movements are helping Austrian exports grow at double digit rates. Domestic consumption is improving as is investment, albeit slowly. "The worst is behind us," says Mr Liebscher.

**Copies of the illustrated charts are in the "Survey of the Austrian Economy 1997/98" (ISBN 3-7007-1166-2), price Sch150, Austrian Museum for Economic and Social Affairs, Vogelsangasse 36, A-1050 Vienna*




**PROFILE** VA Technologie

# A star of the Vienna bourse

The chairman of VA Technologie (VA Tech), the Austrian engineering group, is proud about how little his company produces. The group, carved out of the state-owned conglomerate Voest-Alpine in the early 1990s, has sold off or closed down most of its industrial plants in recent years. It now generates 80 per cent of its revenue from high-value activities such as technological consulting, services and project management.

"Analysts compare us with ABB [the Swedish-Swiss engineering group] but 80 per cent of its sales are hardware," says Othmar Pühringer, who masterminded the transformation of VA Tech into one of Europe's most innovative and profitable engineering groups. "Bechtel is bigger, but they act mostly as contractors. We, however, develop our own technology and offer it to our customers in a package."

VA Tech's mixture of cutting-edge technology and customer-oriented marketing is one of Austria's greatest industrial success stories.

Its Corex steel-making technology, hydroelectric turbines and industrial gas cleaning systems are among the best in the world. Net income doubled from 1992 to 1996 on a 40 per cent revenue increase and should climb more than 10 per cent this year.

The company's share price tripled between its initial public offering in May 1995 and its peak last August - the only Austrian blue chip share that kept pace with the rise in international stock markets. Though the stock has slid back in recent weeks, VA Tech shares, of which 57 per cent are in free float, remains on the buy list of most analysts who follow the Vienna bourse.

VA Tech has divided its Sch37bn operations into three areas with roughly similar sales volume and equally good earnings prospects: metallurgical engineering, energy and environment, and plant engineering and services. "It's a good cyclical mix, because when one business goes down, the other one can compensate," says Mr Pühringer.

Moreover, its wide range of products allows VA Tech to bundle them in so-called operative networks that provide customers with a package of products and services.

Mr Pühringer admits that the co-operation between the subsidiaries, which are run at arm's length, is still not perfect, but it is improving, he says. "Last year we received Sch3bn in additional orders through networks, and it is increasing every year," he says.

The shift toward consulting and services means blue-collar workers are increasingly being replaced by university graduates. "We take on 2,500 new employees every year, and most of them are highly qualified," says Mr Pühringer.

This distinguishes VA Tech from its sister company VA Stahl, which inherited the steel-making activities of the old Voest-Alpine group. This was broken up after twice coming close to bankruptcy. VA Stahl is also profitable, but far more subject to cyclical market swings than VA Tech.

VA Tech has all but shed the mentality of the old state-owned sector, where job security was paramount, and the income from good products was offset by too many loss-making activities, Mr Pühringer says.

From its peak of 30,000 employees in the mid-1980s, VA Tech went down to 15,000 and is now expanding again.

Current return on sales (Ros) is 5 per cent, and the return on capital employed (Roce) 13 per cent. This brings VA Tech close to its stated goal of 6 per cent Ros and 15 per cent Roce.

Sales should grow at least 10 per cent a year in the medium term, driven by the need for more efficient steel plants, hydroelectric power plants and high-quality waste-treatment and gas cleaning systems all over the world, Mr Pühringer predicts.

**Eric Frey**



**BANKING** • by William Hall

# Confronting change

## New companies and new faces are transforming a sector in the doldrums

Austria's banking system is in the midst of its biggest shake up in decades. New institutions are being formed, old names are disappearing and a new generation of bankers is coming to the fore.

The number of credit institutions shrank by 22 in 1996, to 1,109 while the number of outlets rose to just less than 4,700. With one bank branch for every 1,400 inhabitants, Austria remains one of the most over-banked markets in Europe. But that is about to change as Austria's banks face up to the same pressures for consolidation which are shaking up Europe's banking sector.

The most visible sign was this year's takeover of Creditanstalt, Austria's most famous bank, by Bank Austria, a group which did not even exist eight years ago.

Its creation, in 1991 from the merger of Z-Bank, Austria's largest savings bank which had been founded by the City of Vienna in 1907, and Österreichische Länderbank (OLB), dramatically changed the pecking order in Austrian banking circles.

The birth of Bank Austria, and its emergence as the country's banking flagship, owes a lot to the drive and determination of Gerhard Randa, 53, a banker who started his career more than 30 years ago in Z-Bank, controlled by the City of Vienna.

Although Mr Randa is still associated, in some people's minds, with the power-brokers of the socialist controlled City of Vienna, which provides Bank Austria's triple A credit rating, he has a much wider experience of Austrian banking than his rivals. He has been deputy chairman of Creditanstalt and chairman of OLB.

If anyone knows where the skeletons are buried in Austrian banking, it is Mr Randa who took over as Bank Austria's chief executive in 1995. His experience of rival banks, and his reading of the changing balance of power within Austria's ruling coalition government, stood him in good stead when Bank Austria launched its highly controversial bid for Creditanstalt at the end of last year.

The Austrian government had been trying for six years to sell its controlling stake in Creditanstalt but to no avail. Most analysts had ruled out Bank Austria as a bidder because it was already Austria's biggest bank. It was also regarded as a political non-starter because of its close ties to the Social Democrats, the senior partner in the Austrian coalition.

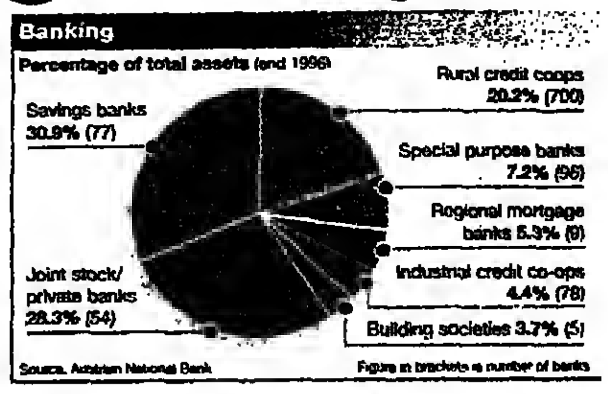
Austria's banks, like other parts of the economy, are tagged as either "red" or "black" depending on whether they are close to the Social Democrats or the conservative People's Party, the junior coalition partner. Although most Austrian bankers insist that party affiliations do not colour their business judgment, the People's party strongly opposed Creditanstalt's acquisition by a "red" Bank Austria since it appeared to substantially increase the "red" sphere of influence at the top of Austrian banking.

However, Mr Randa won the day and now runs an enlarged group which has a 25 per cent share of the domestic market, a market capitalisation of around Sch60bn and is one of Europe's top 35 banks.

He had to accept certain conditions, such as no compulsory redundancies and a commitment to run the banks separately for five years, which reduced the immediate cost-cutting benefits. But he gambled that the benefits of the acquisition, especially in terms of enhancing Bank Austria's absolute financial strength, more than outweighed the cost of the conditions. Judging by the one-third rise in Bank Austria's preferred shares since the deal was announced, the stock market shares his view, at least in the short-term.

Austria's banking market has been one of the most fragmented in Europe which led to low margins and a return on equity, last year, which was less than half the European average. However, Bank Austria believes that, after years of underperformance, Austrian bank profitability is about to improve, and it intends to lead the way.

After the acquisition of Creditanstalt it has a much more dominant share of its home market than many banks in neighbouring countries and expects this to be reflected in higher margins. It plans to double its earnings per share over the next five years and raise return on equity to 12 per cent.




Bank Austria is not the only Austrian bank intent on playing a role in the consolidation of Austrian banking. Girocredit, Austria's third biggest bank and former business partner of Bank Austria, has been sold to Erste Bank, the fourth biggest bank, which has launched a share offering to pay for the acquisition and attract the attention of international investors.

Like Bank Austria, Erste Bank has deep roots in Austria's savings bank movement. Andreas Treichl, 45, an ex-Chase Manhattan banker, has been made Erste's chief executive. He wants to develop his bank into a powerful second force in Austrian banking. Many analysts believe that because of Erste Bank's better profit record and more profitable business mix, its shares could trade at a premium to those of its bigger rival.

And Mr Treichl's entrepreneurial ambitions are matched by other figures emerging in Austrian banking. The Raiffeisen Zentralbank, central bank of the powerful rural co-operative banking system, is one of the most successful banks in eastern Europe, under the leadership of Herbert Stepic, RZB's vice-chairman. It has just opened a branch in Moscow, with a staff of nearly 100, and now employs more than twice as many staff outside Austria as it does at its Vienna headquarters.

The next part of the banking system in need of sorting out is the PSK, the Austrian postal savings bank, where Max Kothbauer, former deputy chief executive of Creditanstalt, is trying to develop a new business strategy. The final plan will depend on whom the Austrian government selects as the PSK's partner. The Raiffeisen Zentralbank and Bank für Arbeit und Wirtschaft (Bawag), a retail bank partly owned by Austria's trade unions, are both interested.

They come from different ends of the political spectrum.

If the government's stake in the PSK is sold to the bidder with the best business plan it will do a lot to exorcise the oft-held view that Austria's banks are run with regard to the best interests of the country's political parties rather than the banks' customers.

**Austria's main banks**

| | Assets, Sch bn | Number of staff | Number of branches | Mkt share % | Strategic partners |
|---|---|---|---|---|---|
| Bank Austria | [illegible] | 18,700 | 450 | 25 | International Westl.B, Cariplo |
| Erste Bank | 654 | 7,700 | 377 | 12 | Commerzbank, Swedbank, Bacob |
| RZB* | 273 | 2,347 | [illegible] | 4.8 | Unico** |
| PSK | 246 | 1,712 | *** | 4.5 | Eurogiro |
| Bawag | 240 | 2,500 | 150 | 4.0 | Bayerische Landesbank |

* Central Bank of Austria's raiffeisen network with 2,450 outlets ** Group of central banks of Europe's cooperative banks
*** No branches, but access to 2,300 post offices
Source: Individual banks and analysts reports

# Searching for a new role

Vienna, one of Europe's smallest and oldest stock exchanges, has been trying for years to chart a new role for itself and the task has taken on a fresh urgency with the approach of European monetary union.

The market has been dominated by a handful of big Austrian banks and its reputation as an insider's club has soured relations with international investors and domestic issuers.

Almost all of the recent company flotations have involved privatisations of state-owned companies. Several small Austrian companies have shown more interest in listing their shares on rival stock exchanges than on the 226-year-old Vienna bourse.

The Austrian government is pushing through reforms to boost investor confidence in the integrity of the market and to encourage its development as a source of equity capital.

Christian Imo, head of Vienna's futures and options exchange, and Wolfram Littich, head of Erste Bank's treasury and capital markets division, have been put in charge of the exchange with orders to produce a survival plan before next Spring.

The operations of the Vienna exchange have already been merged with OTOB, Mr Imo's futures and options exchange, the government has set up a new securities watchdog and corporate investors are being urged to buy shares in the exchange to dilute the banks' stranglehold.

Mr Imo was hired to establish OTOB and is credited with doing a good job by developing it into a centre for eastern European derivatives trading. But there is concern that Austria may have left it too late to breathe fresh life into the exchange which has a combined market capitalisation of less than $40bn and is reliant on just 25 companies for 90 per cent of its trading volume.

Many outside observers believe the best solution would be for Vienna to throw in its lot with a bigger neighbour. Frankfurt is the obvious choice.

It speaks the same language and Frankfurt's new Xetra trading system is much cheaper and more flexible than Austria's relatively new Eqos electronic trading system which is run by the Austrian Kontrollbank.

Linking with Frankfurt would solve the problem of encouraging foreign banks to trade Austrian stocks and provide more liquidity.

However, it would probably involve scrapping Eqos and Austrian banks are reluctant to write off their investment.

The appointment of Mr Imo, a German who was head of trading at DTB, the German Options and Futures Exchange, suggests the day may be nearer when Vienna becomes a branch of the Frankfurt exchange.

**William Hall**

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**ENERGY** • by George W. Hamilton

# An abuse of power

## The political bungling of liberalisation is doing more harm than good

Austria's energy landscape is facing a turbulent transition from a closely beld, mainly government controlled industry to a more competitive, customer oriented business.

The change is risky and those involved, ranging from Hannes Farnleitner, Austria's economy minister, to industry leaders, are nervous. If they fail, electricity and gas could easily come under strong foreign inflnence, if not domination.

Austria'a energy structure grew out of the immediate postwar years and little has been updated since, other than a re-organisation of the elements as shareholding corporations. A 1955 law requires that 51 per cent of any electricity organisation be held by a municipal, regional or tha federal government, a relic of the postwar era ensuring eervice area monopolies.

The arrangement comfortably shelters nine all-powerful regional utilities under local administration with the federal Verbund as a central co-ordinating authority. Competition is as good as unknown. But "the postwar solution is coming to an end," warns Rudolf Gruber, head of regional utility EVN.

Mr Farnleitner, a member of the conservative People's party, the junior partner in the Austrian government coalition, this year proposed abandoning the 51 per cent rule as a critical element of restructuring but was pressured into a hasty retreat by regional forces unwilling to make political sacrifices.

However, change is inevitable as Austria's energy industry adapts to the European Union's plans to deregulate Europe's energy markets. Entrenched monopoly positions are being challenged in gas and in electricity, with the latter the first to be confronted.

In Austria, as elsewhere in Europe, big industrial concerns are demanding cheaper energy in order to remain competitive.

Franz Rottmeyer, general director of Opel Austria which operates a motor and gearbox plant in Vienna, is more concerned about obstacles to reducing his electricity bill than about wage costs. Some 72 of tha largest users would be allowed freedom of electricity sourcing under EU liberalisation directives. EU commissioners are showing little sympathy for Austria's foot-dragging over market opening.

Local oil production amounts to only about 12-13 per cent of needs, while Austria recovers some 20 per cent of its gas requirements from domaetic fields. Imported oil and gas set the market prices. The country is more than self-sufficient in electricity, with bydro-electric capacities accounting for some 75 per cent of output.

But hydro-electric power is expensive, with enormous up-front investment required. Competitors are lined up across the border offering to anpply cheaper electricity than the domestic monopolies, leaving Austrian utilities concerned that their investments will be left stranded.

Gas, too, is under price pressure from potential German suppliers who would be happy to shave a slice out of tha virtual monopoly of OMV, Austria's major oil and gas company.

A second factor threatening to change the utility indnstry is the move towards privatisation – Austrian style.

The concapt involves defensiva cross-ownership between energy concerns, effectively creating a barrier against possible "outside" (German, Frencb or other major European) intrusion.

Typical is the move to "privatise" 25.1 per cent of Energie Steiermark, a holding concern made up of the primary Styrian electricity utility and its gas and district beating subsidiaries. French, German and Italian as well as Austrian bidders responded, in October, to an invitational tender handled by Kleinwort Benson, the London merchant bank.

The three Austrian bidders were rejected in the initial pre-qnalification round, allegedly because their offers were valued at roughly half those of the French and Germans. But, following personal intervention by Mr Farnleitner, a consortium of Verbund, regional utility EVN and Vienna's municipal utility WienStrom was readmitted to the bidding with an "adjusted" offer.

Within the Ministry, an unwritten principle decrees that at all costs, Energie Staiermark must remain wholly Austrian.

Much of the nervousness over reorganisation and privatisation can be traced to the government's failure to deal with the inevitable. Ministers and officials knew EU directives would require basic sbifts in Austria's energy organisation and policies, particularly those affecting electricity. Not until this March were any direct moves made to accommodate Brussels' mandates.

Since electricity industry reorganisation is dependent on new law making, the assignment fell to the Ministry for the Economy which is responsible for the sector. Bnt what has bappened could be labelled bad operetta and the show is far from over.

Mr Farnleitner, despite his experience as a former Verbund snpervisory board member, has seen his name tacked on to three separate draft electricity reorganisation laws, none of which convincingly addresses the core issues. He has failed to persuade even his own party to support critical measures necessary if electricity market liberalisation is to conform to EU directives.

Compromises with the Social Democrats, the majority coalition partner, have further diluted any effectiveness the measures might have had. The "Farnleitner III" draft, revealed in early November, has undergone constant revision with few in the industry or government satisfied with tha changes.

"What's the latest version?" asks Hans Haider, management board member and spokesman for the Verbund. Indeed, Haider questions whether an electricity industry reorganisation bill – even if accepted by the council of ministers – would necessarily find parliamentary approval.

"There is no guarantee that ministry proposals would be retained," Haider notes, in reference to overriding regional interests. The law is scheduled to be passed no later than summer 1998, to take effect in 1999.

With a lack of Ministry leadership, differing and often contradictory ideas are being floated. One proposal is a national energy concern to combine the electricity industry with OMV, which had its origins as the Soviet oil administration in Austria during the 1945-55 occupation.

This fact partly accounts for the close commercial ties between OMV and various Russian energy concerns, notably Gazprom.

OMV has a mooopoly over gas imports, about 70 per cent of which come from Russia, and its pipelines carry Russian gas westward to Germany and France. But OMV general director Richard Schenz has little interest in monopolising Austria's entire energy industry.

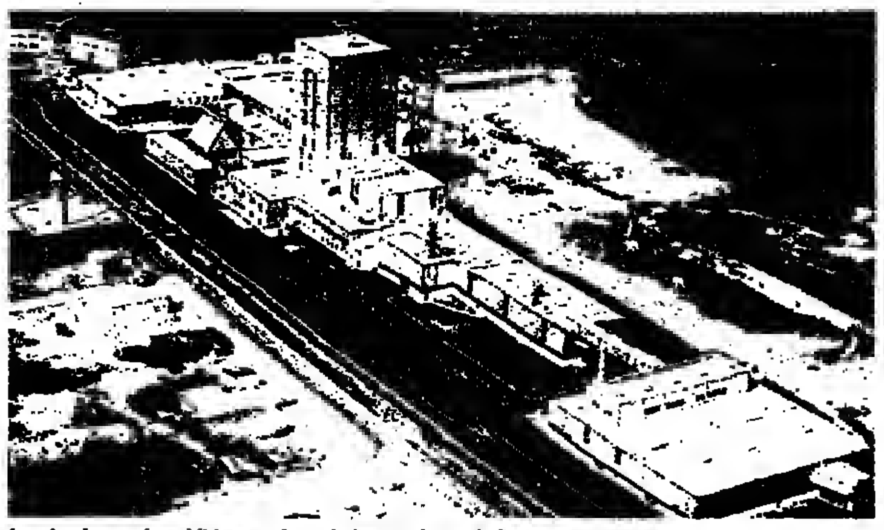
For practical and political reasons, a single energy concern is barely feasible. Although a few intereats such as gas and cogeneration overlap, Schenz disregards the possibility and is pressing ahead indepandently to strengthen OMV in central Europe and overseas.

Until Mr Farnleitner's ministry, tha government and parliament succeed in reorganising the electricity industry to meet EU directives and in alleviating fears of foreign takeover, questions of further energy industry consolidation are unrealistic and far distant.

The risk is that in the meantime the feared "outsiders" will have achieved a *fait accompli.*

**PROFILE** Lenzing

# Putting their shirt on Lyocell


Lenzing is convinced it has a winner in its new Lyocell plant

On October 17 Austria's chancellor, Viktor Klima, opened one of the world's most modern cellulose fibre plants in Heiligenkreuz, a small village on the Hungarian border in Burgenland, Austria's smallest and poorest province.

Lenzing, the company which built the Sch1.5bn ($123m) plant, is one of the few Austrian companies considered a world leader in its industry. It produces 16 per cent of the world's viscose stable fibre, a man-made fibre which the Americans call rayon and which is made from renewable woodpulp.

But the new plant will produce 12,000 tonnes a year of Lyocell, a fibre which, its developers believe, could transform the world textile industry.

Lenzing, like many of Austria's traditional industries, is facing serious competitive pressure. Prices of its viscose staple fibre, which competes with cotton and synthetic fibres such as polyester, have fallen sharply and the centre of gravity in the industry is shifting away from Europe to low-cost producers in Asia.

Lyocell is much stronger than viscose, Lenzing's core product, combining cotton's softness and absorbency with polyester's strength. Unlike many cellulose-based fibres it has the advantage of being machine washable. Its developers argue that it can be processed to feel like silk and hang like wool and should be able command a premium price to traditional viscose fibres.

Its environmental credentials are also good. It uses a much cleaner manufacturing process than in traditional viscose production and is biodegradeable.

Lenzing's new plant, built with generous subsidies from the European Union, and tha substantial costs of launching the new fibre could make or break the company. The project will also be a test of whether Austria's high-wage manufacturing industry can adapt to the increasing competition from low-cost producers in Eastern Europe and Asia.

Lenzing is coovinced it has a winner. Heinrich Stepniczka, chief executive, plans to double Lyocell capacity at Heiligenkreuz by the first half of 1999. Over the longer-term production could rise to 60,000 tonnes a year and Lenzing wants to build a second plant, possibly in Asia.

The commercial launch of Lyocell comes when Lenzing's traditional viscose fibre business has plunged the company into the red. Losses of Sch157.4m in 1996 had escalated to Sch174m in the first half of 1997 alone and the company passed its dividend. A cost-cutting programme has been implemented and the European business sbould be back on its feet in 1998 but problems in the US look more deep-rooted. The economic chaos in south east Asia, where Lenzing has an Indonesian joint venture company, has added to its short-term woes.

Last year was probably the worst ever for global fibre producers, such as Lenzing, with prices falling to their lowest level since 1980. By contrast, 1997 has seen demand recover but one of the main threats to Lenzing is the rapid growth of polyester, which accounts for around 50 per cent of global man-made fibre production. So much new capacity has been built, or is being built, that demand will not catch up with supply until 2000 or beyond. Polyester prices are very low, and are expected to remain so for several years. This inevitably affects pricing in the whole fibre market.

Hence, Lenzing is taking a considerable gamble in expanding its capacity when many of its European competitors are retrenching because they see no prospect of ever earning an adequate return. Europe's viscose fibre capacity fell by 20 per cent in 1996 and a number of European companies are beading for the exit. IndoRayon, for example, bought Kemira's viscose fibre business and there have been rumours that an Asian producer might take a stake in Lenzing.

Consequently, Lenzing's long-suffering investors will have to be convinced of Lenzing Lyocell's success or they will vote with their feet. Bank Austria, with more than half the equity, is known to want to cut its stake.

Lenzing can draw comfort from tha progress of Courtauld's Tencel, which is so similar to Lenzing Lyocell that they have been fighting each other in the courts over the patent rights for a product they both believe can revive their fortunes. Lenzing is bigger than Courtaulds in viscose fibre production but, in terms of the new fibre, Courtaulds is roughly four times Lenzing's size.

Gordon Campbell, Courtaulds' chief executive, says that Tencel has "moved firmly into profit" and his group is substantially expanding its capacity to produce the oew fibre. An extra 42,000 tonnes of capacity is coming on stream at Grimsby in the UK and the company is seeking a partner for a 50,000 tonne Asian plant.

There are signs that Lenzing and Courtaulds may have resolved their disagreements. Lenzing has indicated the two companies could even work together to promote Lyocell globally. The quicker the fibre is accepted, the faster Courtaulds and Lenzing can grow capacity, reduce unit costs and make money.

**Marjorie Walker**
*European Chemical News*

**TOURISM** • by Ian Hamilton Fazey

# Fewer may provide more

## With visitor numbers falling, big-spending tourists are the ones to trap

Just how important the tourism industry is to Austria is conveyed by a single statistic: latest figures show it contributing 6.3 per cent of gross national product, the highest share among the 29 most advanced countries which make up the Organisation for Economic Co-operation and Development.

This makes tourism relatively more important to Austria than the industry is to Spain, where it accounts for 4.4 per cent of GNP, and Greece with 3.8 per cent. The Austrian Tourist Board says that more peopla visit the Tyrol each year than go to Greece and Turkey combined.

Austria does not lead in absolute terms, of course. Its total earnings from tourism of $156.5bn rank it fourth behind Italy, France and Spain. However, Austria is a much smaller country of only 8m people, so a combination of volume and prices puts it at the top of the OECD'a league for income from tourism per head: its $1,820 is far ahead of Denmark in second place, where the figure was $704. Spain at $631 and Ireland at $613 came third and fourth.

The problem for Austria, however, is that good as these figures are, they have been in decline for five years. The latest figure for share of GNP was down from 8 per cent on the previous year and the first three quarters of 1997 have given no cause for optimism, though the Austrian government is clinging hopefully to forecasts that the trend will bottom out this year.

Unfortunately, the weather was terrible in July and overnight stays, the industry's leading indicator, tumbled nearly 13 per cent, compared with 1996, to 14.3m in thet month alone. This contributed to a 4.4 per cent drop for the period May to August, with 45.6m ovarnight stays in total.

The good news is that people paid more: revenues were Sch55.4bn, a year-on-year drop of only 3.4 per cent.

Broken down, overnight stays by foreign tourists dropped 5.6 per cent to 32.6m, while those by Austrians themselves rose by 1.1 per cent to 13.2m.

There was also an encouraging increase in numbers of tourists from the UK and Italy. Foreign currency variatione almost certainly helped here, with the pound alona worth more than Sch20 now, a level last seen in 1990. It had dropped to less than Sch15 Schillings after the UK and Italy left the EU's exchange rete mechanism, making Austria prohibitively expensive for many British tourists.

However, more British and Italian visitors will not make much impact on Austria's overall problem because two-thirds of overnight customers come from one country, Germany. The industry relies, principally, on skiing in winter and hiking in summer, and it is ultra-sensitive to the weather. In the main, Germans drive to Austria and they may set off, or cancel, on whim when they see the weather forecast.

Nor are Austria's difficulties helped by the industry's multitude of small, family-owned businesses.

They may well help make Austria homely and welcoming but they fragment the sector. Co-ordination is difficult and a coherent marketing policy has proved elusive.

On top of all this, 44 per cent of all overnight stays are crammed into February, June and August. The apread is more even in Vienna and Salzburg, with seasonal concentration most marked in the Alpine provinces.

There, because most visitors come by car, they strain local capacity and crowd Alpine valleys. Economic inefficiency is reflected in an average capacity use of only 30 per cent over a full year, with average unemployment of 18 per cent in the principal holiday areas.

Moreover, German tourists spend 20 per cent less a day than other foreign visitors, largely because campers and caravanners bring most of their own food.

All this makes the industry over-sensitive to relatively lower-priced German volume. And Austria aims to counter this by attracting higher-spending tourists from elsewhere.

Tha aim is to make a virtue of the fundamental problem that a week in Austria can cost as much as a fortnight'a package holiday in the Caribbean. Many of the country's more expensive attractions are being sold as high quality niche products.

Seeking high-spending tourists *Tony Andrews*

Art, music and opera in Vienna are obvious examples. So is Vienna itself, perhaps one of the best cities for a long weekend break at virtually any time of the year. Indeed, Vienna is at its best outside July and August, when the weather can be oppressively humid and the crowds are at their most uncomfortable. Silvester Nacht - New Year's Eve - is an experience not to be missed, with people waltzing in their loden coats at midnight as the Blue Danube plays over loudspeakers in the city centre streets.

The dollar's strength, coupled with expansion of Vienna Airport and a constant development of intercontinental services since the fall of the Iron Curtain, are all creating opportunities.

And the increasing numbers of tour parties in Vienna from the US, Japan, Korea – as well as Russia, Hungary and Poland – suggest that at least some of them may be helping to brake the downward alide.

**THEME PARKS** • by Eric Frey in Vienna

# Developers with fun in their sites

## Vienna is considering, not one, but three plans for huge amusement parks

The career of Frank Stronach sounds, to many Austrians, like a fairy tale. He left his Styrian hometown as a penniless toolmaker 40 years ago and went to Canada, where he set up a car parts shop.

He turned his company, Magna International, into the world's largest supplier to the auto industry with annual sales of $4.4bn.

Then, he returned to Austria with lots of money to spend, a heavy accent in his native German and plenty of unusual ideas.

Mr Stronach's latest plan seems as fantastic as the story of his life. South of Vienna, the business tycoon wants to build an enormous theme park for Sch7bn.

Its key attraction would be a 140m high globe, which will let visitors experience, through virtual reality, the history of the world from the the dinosaurs to Michael Jackson.

When the quirky Austro-Canadian presented his "Vienna Globe Resort Park" in June, he kicked off a series of high-tech theme park projects for Vienna that, if they are built, could turn a city famous for *fin-de-siecle* nostalgia into a world centre of US-style tourist attractions.

Not far from Mr Stronach's prospective construction site, an international investor group, led by US investment bank Morgan Stanley and former UN secretary general Perez de Cuellar, wants to build another huge amusement park which would have an ancient Asian myth as its theme.

"Citrapolis 3000" would be erected next to tha sprawling Shopping City South, which over the past two decades has grown into Europe's largest retail complex.

Visitors from Vienna will arrive by a state-of-the-art cable car and then go underground, where interactive computer technology will let them search for the book of power and participate in a gigantic battle between the forces of good and evil. A similar theme park is already being constructed in Singapore.

The prospect of two huge commercial projects in the neighbouring province of Lower Austria have set alarm bells ringing in Vienna where retailers are losing ground to the new suburban malls built outside the city.

So Walter Nettig, president of the local business chamber and the *eminence grise* of the city administration, devised a rival project.

Mr Nettig wants to build a new entertainment and commercial centre in the Prater, a wonderful nature reserve near the city centre which also features an old-style lunar park, an exhibition centre, two traditional horse-racing tracks and a modern football stadium.

Mr Nettig says he hopes to convince Mr Stronach to abandon his plans for his giant globe and participate in his Prater World project instead.

It seems unlikely that all of these projects will be realised at the same time. Of the three, Mr Stronach'a globe, in the small town of Ebreichsdorf, is the most spectacular and most controversial.

Critics maintain that the theme park would destroy thousands of acres of untouched woodlands and create traffic problems on the crowded highways south of Vienna.

Environmental concerns have delayed the approval process for the project and pushed the opening date beyond the December 31 1999 target that Mr Stronach had originally announced.

Mr Stronach has littla patience for the critics. "It will be like the Eiffel tower," ha says. "At first, they were all against it but now 99.9 per cent are for it." To attract visitors from all over the world, he has to build something spectacular, Mr Stronach contends.

"Nobody comes to Vienna for another merry-go-round." He predicts 15,000 to 20,000 visitors a day and promises to create 3,500 jobs in an area where there are few employment opportunities.

The theme park has strong support in Ebreichsdorf and the surrounding area where Mr Stronach is a local hero.

In neighbouring Oberwalterdorf, he acquired a medieval castle with adjourning grounds, where he built Magna's European headquarters, a training centre, a golf course and a luxury housing development for Magna's top managers and wealthy Viennese.

"Money is not an issue," he responds to questions about the steep price tag for his theme park and its financial prospects.

True, Magna, which espouses its own corporate philosophy in its charter, is free of debt and has plenty of cash to finance the start-up investment. Mr Stronach says his investments are his way to thank Austria for the excellent training he received as a young man.

After creating thousands of industrial jobs in the depressed industrial areas in his native province of Styria, Mr Stronach wants to help to boost the troubled tourism industry with his project.

Experts also see sound economic reasoning behind Mr Stronach's globe and the rival projects. Theme park construction is a booming business all over Europe, especially since the turnround at Disneyland Paris.

Vienna offers a special attraction because of its proximity to the new democracies, where interest in this mix of Silicon Valley technology and Hollywood fantasy is particularly strong. In addition they are the home of rapidly growing middle classes with plenty of disposable income.

The proposed sites are also close to the Vienna airport, which is investing heavily to turn itself into a key gateway for traffic not only from Eastern Europe but also from east Asia.

Once the tourists from Japan, South Korea and other Asian countries regularly maka their first European stop in Vienna, two or three theme parks may be viable after all.



PROFILE

# Sweet smell of success

Linz, Austria's third largest city and the regional capital of Upper Austria, has always been seen as disadvantaged compared to its more famous counterparts. Vienna has its imperial glories and Salzburg has Mozart. But, as Gerlinde Pöchhacker of location marketing advisers O.Ö. Technologie- und Marketing put it, Linz has traditionally been summed up with the phrase "Linz stinks."

Even 10 years ago there was a lot of truth in this for Linz was the centre of emission-producing and ailing steel and chemical industries. Ever since the first train in Austria left Linz for Budweis in 1832, it has been the home of Austria's heavy industry. During world war two it grew into an important industrial centre for the German war machine thanks to the support of Adolf Hitler who grew up in Linz.

But over the past decade Linz has shrugged off its past and transformed itself into the go-ahead capital of one of Austria's most prosperous regions and is attracting new industries and capital investment as a result. There are several reasons for this, one being that Linz is no longer "smokestack Austria", but one of the 10 cleanest cities in Europe.

It is also a handy size, with just over 200,000 inhabitants, has its full share of baroque buildings and boasts beautiful surrounding countryside, including some of the most attractive stretches of the Danube. These factors, together with a good housing stock, make it attractive to companies seeking a good lifestyle for their employees at a more modest cost than would be the case in Vienna and its environs.

Christoph Leitl, regional minister for economic affairs, says that one of Linz's big advantages is its geographical situation. It is in easy striking distance of its important markets, Germany in particular, is a significant Danube port and a convenient place for foreign companies to locate subsidiaries. The road and rail system is good and the city has its own airport. Connections from the airport to other European cities could still be improved upon but they are working on it.

Mr Leitl has a clear vision of where Linz and the province are heading. The economic policy is not to give subsidies but to strengthen education and skills and to make it easy for companies to invest in new plants. Austria has an unenviable reputation for slow, grinding bureaucracy but this is no longer the case in Upper Austria.

"We said 'down with bureaucracy'," says Mr Leitl, with the result that planning permission has been cut from a forbidding three-year average wait in 1991 to just six months.

This cuts costs and clearly has an appeal to companies such as Caradon UK which chose Linz as the centre for its planned annual production of 500,000 high-quality radiators, mainly designed for export to other European countries. Christian Wimmer, managing director of Caradon Stahlrad, underlines another attractive feature of the region - a highly skilled workforce stemming from its industrial past, adding that "location is not all about labour costs". It might be cheaper to locate in neighbouring countries, such as the Czech Republic and Hungary, but Upper Austria has the advantages of better skills, learning facilities and low inflation.

At only 3.5 per cent, Upper Austria's unemployment rate is lower than the Austrian average but this has not made it difficult to hire skilled employees. Caradon is creating another 100 jobs and has had around 50 applicants for each one.

The region's finances are also in good order. With Upper Austria accounting for a quarter of Austria's industrial production and exports, the growth of tha region has produced a budget surplus of Sch1.5bn last year, against a Sch5bn deficit two years ago. Mr Leitl intends to use this surplus to promote research and development.

Linz also benefits from a competitive banking system, anxious to play its part in development, including local names such as Allgemeine Sparkasse Oberösterreich, Raiffeisenlandesbank Linz and Oberbank, as well as branches of other big banking names.

Leading public companies are also headquartered there including VA Tech, VA Stahl, BBAG (Austria's biggest brewer) and Lenzing. Allgemeine Sparkasse's Johann Penzenstadler says smaller companies in the region have also played a leading role in the rapid growth in trade with Eastern Europe.

Similarly, Manfred Weissmann of Oberbank stresses that small to medium-sized companies have spearheaded the export of machinery and spare parts to Germany, particularly to the automobile and textile industries.

For inward investment Linz has attracted big names, such as Hoffmann La Roche, SKF, Hafslund-Nycomed, Novartis, BMW, and others from all over Europe.

But it is not all work. The city and its environs also have tourist potential. Cultural attractions include theatre and musical events, the Bruckner Festival, the Museum of the Future, 'Ars Electronica', not to mention the natural attractions of the region. But, as in many parts of Austria, it needs to update its hotel stock if its full potential is to be realised.

**Christopher Hill**

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